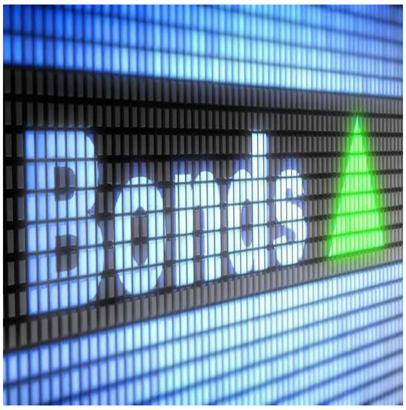

Retirees: Tired of Low Bond Yields? Bond Proxy Dividend Stocks May Be the Cure

Description

Retirees have it tough these days. Just ask Warren Buffett, who recently wrote in his annual letter to **Berkshire Hathaway** shareholders that bond investors face a "bleak future," with yields still hovering around their historic lows. The surge in the 10-year U.S. Treasury yields sparked a growth sell-off, but a mere 50-bps bounce is less remarkable in the grander scheme of things. Real yields from the 10-year bond are still negative, and it's not a mystery as to why bond investors and retirees have been selling their ridiculously unrewarding bonds.

The 10-year bond is currently sitting at 1.4%, and that's not nearly enough to combat the insidious effects of inflation over time, especially with a U.S. Federal Reserve who's more than willing to stand pat, even in the face of reflation. Fed chair Jerome Powell sounded extremely dovish — probably too dovish. And you can expect the Bank of Canada to follow suit.

There's no stopping Powell from taking a 180-degree reversal with his stance. The man can go from the most harmless dove in the world to a fierce hawk overnight. Just look back to the late 2018, when the "Powell put" sell-off took hold, as investors feared the looming rising-rate environment that just never came to be.

Interest rates: Lower for longer?

At this juncture, the Fed is fine with the economy overheating on the other side of this pandemic. The "roaring '20s" could see a profound spending boom and much prosperity, with interest rates that could stay lower for many years to come.

Such an environment does not bode well for retirees and conservative investors. They're bound to run into some form of sticker shock eventually once their GICs (Guaranteed Investment Certificates) mature and they're looking at sub-1% rates — less than half (or even a third) of where they were just two years ago.

A 0.55% interest rate to have your money locked away for 18 months doesn't make sense anymore. And Canadian retirees are getting fed up.

While you could chase yield at some other bank that has a more favourable "special offer" rate, doing so will only grab you a few extra basis points, at best. Shopping around for higher rates in the world of so-called risk-free investments could expose you to greater risks, and who needs that?

For retirees, there are two options: settle for these abysmal interest rates and lose ground to inflation or up one's risk tolerance modestly for the greater yields in the equity markets.

I think we've reached a tipping point whereby bonds, albeit risk-free, are riskier than certain defensive dividend stocks or bond proxies like **Fortis** (TSX:FTS)(NYSE:FTS), when you take a moment to consider the opportunity costs.

Dipping a toe into the equity markets

As a retiree, you can't afford to take on too much risk. The equity and REIT markets are, indeed, "risky." But they don't have to be a roller-coaster ride of emotions. Fortis is a low-beta bond proxy with a juicy 4% yield — far better than anything in the bond or GIC market these days. Even better, the dividend will grow at a mid-single-digit rate every year without requiring you to pick up your wallet to buy more shares.

The stock is dirt cheap and is worth considering (at least in part) with your fixed-income portfolio.

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