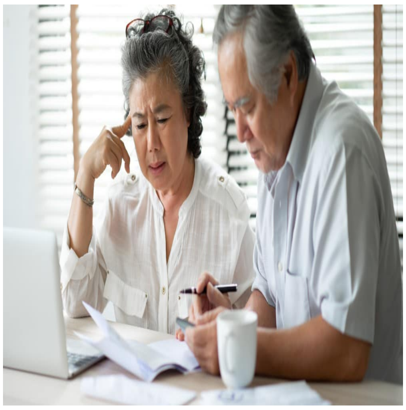


Retire Early With Passive Income From Dividend Stocks

Description

No matter what kind of investing strategies you employ, a quality dividend stock portfolio can always help to increase your passive income and help you retire early.

What does it mean to retire early? Canadians can retire early when they have accumulated enough assets to produce the income they need for their retirement lifestyle.

You might earn income from real estate, farms, or fixed-income assets. Here, we'll focus on dividend stocks.

Let's say you need $50,000 of annual income for your retirement and you need to generate $20,000 from dividend stocks because your other assets can generate the rest. You can generate a safe yield of 4% from quality dividend stocks with an investment of $500,000.

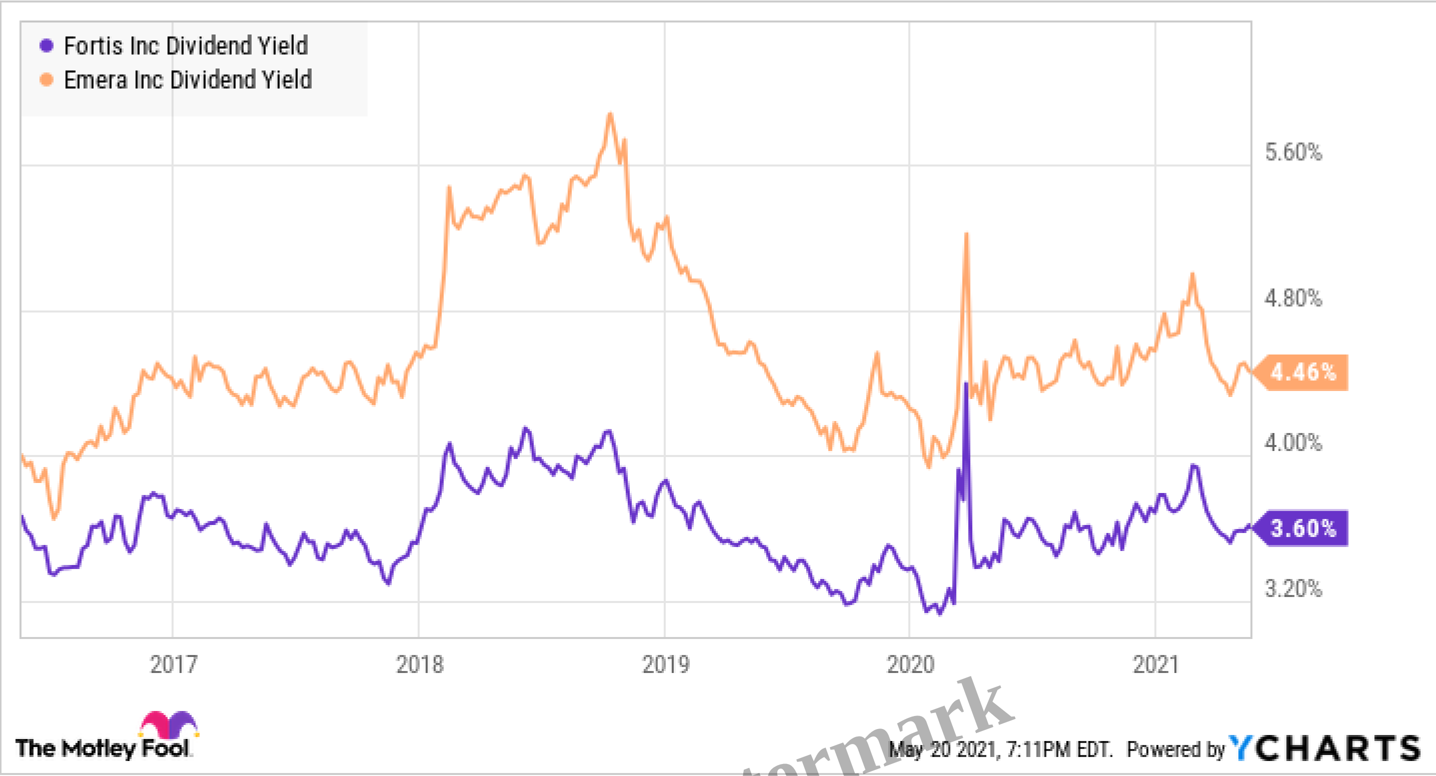
Ideally, you would want to steadily put money in the stock market — perhaps deploy money multiple times a year. That's because all too often, you'll find stocks on sale at different times. Occasionally you'll find most of the stock market on sale in a single period during market crashes as history shows.

The earlier you begin investing in quality dividend stocks that tend to increase their payouts every year, the earlier you could retire.

Regulated utilities **Fortis** (TSX:FTS)(NYSE:FTS) stock and **Emera** were on sale earlier this year when their stock prices dipped to yields of +4% and +5%, respectively. It was a window of opportunity that only lasted about 11 days.

You need to be aware of the opportunity in order to seize it. So create a list of diversified, safe dividend stocks and the yields you would consider them bargains at.

Fortis and Emera yield as high as 4% and 5% seldom enough, as the yield-history chart shows below. That's why I chose those yields as my potential buy targets.



Dividend Yield data by YCharts. The five-year yield history of Fortis stock and Emera stock.

Essentially, once you've bought safe dividend growth stocks on sale, you never have to sell them and can collect a growing passive income stream forever!

Other than regulated utilities, you can also find safe and juicy dividend income from real estate investment trusts (REITs), banks, insurance companies, and telecoms. Dividend stocks from technology, healthcare, consumer staples, consumer discretionary sectors might provide smaller yields.

You'll find more choices on U.S. exchanges, and it's a great time to buy south of the border because Canadian dollars are currently strong against U.S. dollars.

If you invest early, it's actually a good idea to invest in low-yield stocks that provide higher dividend growth because they will generate more income down the road than the higher-yield but slower growth dividend stocks.

For example, if you bought Fortis stock for a 3.7% yield and it increases its dividend by 6% a year for the next five years as it aims to, you'll end up with a yield on cost of 4.95% at the end of the period.

If you instead invested in a 2%-yield stock that grows its dividend by 20% a year, you'll end up with a yield on cost of 4.98% by the end of the period. And as long as this lower yield dividend stock continues to grow faster than Fortis, it'll deliver greater total returns *and* dividend growth than Fortis.

The Foolish takeaway

If you're five years or less away from your planned retirement date, it might serve you better to focus on higher-yield dividend stocks that yield in the 3-5% range. If you have at least 10 years until your retirement date, you might have a bigger portion of your dividend portfolio in lower yielding but higher growth stocks.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/07/28
Date Created
2021/05/22
Author
kayng