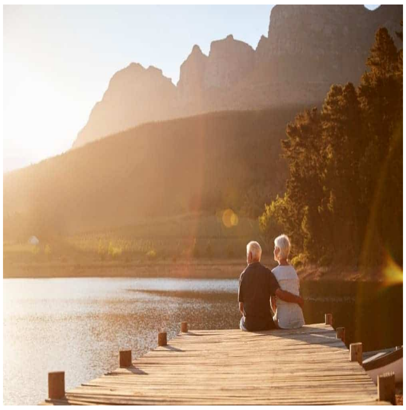

Canadian Retirees: 2 Top Picks for Safe, Passive Income

Description

Canadian retirees have it tough these days. Given the rock-bottom interest rates we've been dealt over the years, it's nearly impossible to even fathom an environment where risk-free debt instruments paid coupons yielding in excess of 10%. An equity-like return that's free from risk? That's what the bond market offered investors back in the early 1980s. Sadly, those days are over, and the "free lunch" from 30-year U.S. Treasury notes purchased back then have long expired, and there's no going back.

Today, investors are grappling with higher inflation (recently hit 5% in the U.S.) that threatens to erode the coupons of today's unrewarding bonds. For Canadian retirees, the answer is either to take on more risk or settle.

Taking a chance on "risky" securities like equities in your late 60s or 70s may seem like a very bad idea, but it doesn't have to be. You see, just because you take on more risk doesn't mean you'll be joining the likes of the meme stock crowd by speculating on dangerously volatile instruments that can blow up in your face.

You worked hard for your nest egg. And you need it to last. You can't risk excessive capital losses and run the risk of returning to work, after all! That said, Canadian retirees could also stand to take a hit from inflation by overweighting in risk-free assets like bonds, GICs (Guaranteed Investment Certificates), and the like. While there are no guarantees in the world of "risky" equities, there are much greater rewards that can far outweigh the marginal risks.

When you factor in opportunity costs of being left in cash amid 5% inflation, some of the top bond proxies on the TSX Index become that much more attractive, even though they guarantee nothing.

Fortis: The ultimate dividend stock for Canadian retirees

Fortis (TSX:FTS)(NYSE:FTS) is a regulated utility with a handsome 3.3% dividend yield. The payout isn't guaranteed, but it's pretty close to it, given the stability of Fortis's operations and its unshakeable cash flow stream, which tends to be little rattled when the going gets tough. The dividend has grown and will likely continue to do so at a mid-single-digit rate for the foreseeable future.

Moreover, it's not just Fortis's stable dividend that's the star of the show through the eyes of Canadian retirees. It's the lack of volatility. A regulated utility isn't going to make the news regularly. Quarterly releases aside, Fortis is ridiculously boring, and things seldom deviate drastically from expectations.

The lack of surprises makes Fortis a pretty smooth ride relative to most other plays out there, long-duration bonds included. Still, Fortis stock's near-zero beta is no guarantee that the stock won't plunge come the next big market-wide scare. During the 2020 market crash, nearly everything sold off, from bond proxies to Bitcoin. Surprisingly, even bond funds took a hit to the chin, as the sudden rush for cash took hold.

Undoubtedly, if you sold your supposedly safe bond funds at the wrong times, you would have taken a huge loss. Given this, I'd argue that it's a heck of a lot wiser to invest in an instrument that gets better, and not potentially worse, with time. With rates likely to rise over the coming years, I'd argue that bonds are bound to be a losing bet, especially when stacked against a bond proxy like Fortis with its growing dividend and one of the lowest betas out there.

Bottom line

For Canadian retirees, the answer is clear. Fortis shines. And I think it's a great solution to help them get the passive income they rightfully deserve without having to up one's risk appetite substantially.

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