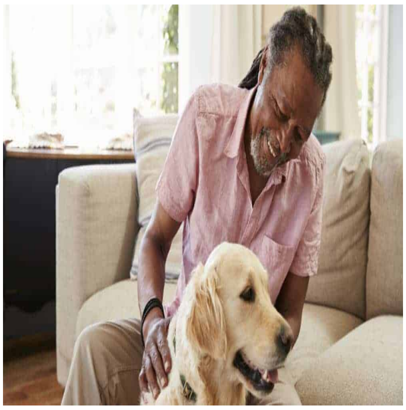

Retirees: 3 Tips for Dividend Stock Investing

Description

A low interest rate environment has ushered more retirement funds into the stock market to seek greater income. Here are a few key tips for retirees when it comes to dividend stock investing.

Sufficient income

Retirees have already accumulated their nest eggs. Often, they want to generate as much quality income as they can from their nest egg. Therefore, they need to figure out what yield they need to earn from their investments to generate the income they need.

Retirees' sources of income could come from pensions, the Old Age Security (OAS), real estate, and other investments, such as bonds and stocks. Oftentimes, their dividend income is supplementing other types of income.

Depending on their unique financial scenarios, retirees should calculate how much income they need to generate from their dividend portfolio and then work from there.

Ideally, retirees would have built a secure dividend stock portfolio, ahead of time, before their retirement. Doing so should result in a high yield on cost and great margin of safety for the principal.

If retirees or soon-to-be retirees are just starting dividend investing, they can probably generate a safe yield of 3-5% that would be greater than the Canadian stock market's yield of about 2.6%.

For example, a $300,000 dividend portfolio can generate dividend income of $9,000-$15,000 using the 3-5% yield range. Just ensure that the dividend income is safe.

Dividend income safety

Multiple factors can improve the safety of your dividend income. Pick dividend stocks with a track record of dividend payments — ideally, increasing dividend payments. You can start your research from the Canadian Dividend Aristocrats, which is a list of Canadian dividend stocks that tend to increase their dividends over time.

Often, you'll find that these dividend stocks grow their earnings or cash flow in the long run and have safe payout ratios. You can further improve your dividend income safety by choosing stocks that have high earnings or cash flow stability. That is, even during bad economic times, their earnings/cash flow won't drop a lot, or if they do, they recover quickly.

Dividend stocks from different industries would have different payout ratios. So, compare a dividend stock's payout ratio to that of its peers. For example, the big Canadian banks tend to have a payout ratio of about 50%, while utility stocks tend to have higher payout ratios in the 60-70% range.

Principal safety

Principal safety is just as crucial as income safety. Retirees must protect their nest eggs when generating the income they need. To improve the safety of your principal, aim to buy dividend stocks with underlying quality businesses at good valuations.

After the market recovery and rally from the pandemic market crash, there aren't as many undervalued stocks out there. However, retirees can still begin a dividend portfolio with quality stocks at reasonable valuations, including **Bank of Montreal** and **TC Energy**, which yield 3.3% and 5.7%, respectively.

The Foolish investor takeaway

By investing in reasonably valued, quality dividend stocks that provide safe and sufficient dividends, retirees should be able to enjoy a dividend portfolio that has low risk and low volatility.

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