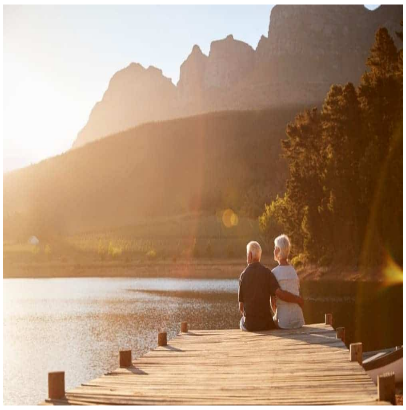

3 Dividend Stocks Every Retirement Account Needs for Steady, Safe Income

Description

The best retirement accounts have a well-diversified portfolio of stocks and bonds that focus on two objectives: providing a steady stream of income and minimizing unnecessary volatility. We want to ensure safety of principal and a perpetual withdrawal rate, lest we run out of money halfway through our golden years.

What types of stocks do we want?

When it comes to the stock component of our portfolio, our main objectives should be to find ones with

- A consistent +15-year streak of dividend payments and increases ("Dividend Aristocrats");
- High dividend yields of 3% or over but with a sustainable payout ratio of anywhere from 35% to 65%;
- A low beta. A beta greater than one suggests that the stock is more volatile than the broader market, while a beta less than one indicates a stock with lower volatility. A beta of less than zero indicates an inverse relationship.

Stocks with all three of these traits will help your portfolio create a stream of steady income, while minimizing those ups and downs that could impact your ability to withdraw money. When the market is fluctuating wildly, your portfolio will be much more stable, and the dividends allow you to get income without selling off too many stocks.

What are some examples of these stocks?

The Canadian market is full of stocks that exhibit these traits, mostly concentrated in the utilities and telecommunications sector. Here are my top three picks:

1. **Fortis** (TSX:FTS)(NYSE:FTS): Dividend yield of 3.51%. Beta of 0.08
2. **Emera** (TSX:EMA): Dividend yield of 4.23%. Beta of 0.24
3. **Bell** (TSX:BCE)(NYSE:BCE): Dividend yield of 5.26%. Beta of 0.33

Although these stocks are not crash-proof, they tend to move less with the market during times of turmoil. Moreover, all three companies exhibit great financials, competent management, and good competitive advantages, making them suitable for long-term holdings.

What are the risks here?

There's no free lunch in investing. Every strategy, stock, or portfolio will have its own unique risk profile, and these three stocks are no different.

- Market risk: Despite their low beta, these stocks could still crash temporarily alongside the market, as investors panic sell risky stocks and move into bonds, even if they have great fundamentals at that time.
- Interest rate risk: Utilities like FTS and EMA could be negatively impacted by rising interest rates, as bonds become more attractive and their debt becomes more difficult to service.
- Regulatory risk: Telecoms like BCE that operate in an oligopoly run the risk of being constrained by anti-competition legislation or policy.

The Foolish takeaway

Low-volatility Dividend Aristocrats such as FTS, EMA, and BCE are best suited for retirees with a low risk tolerance. These investors cannot tolerate volatility as much and depend on a safe nest egg and steady income to support their living expenses. Younger, growth-oriented investors should seek more volatile stocks with a higher beta for better returns.

CATEGORY

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2. Investing

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