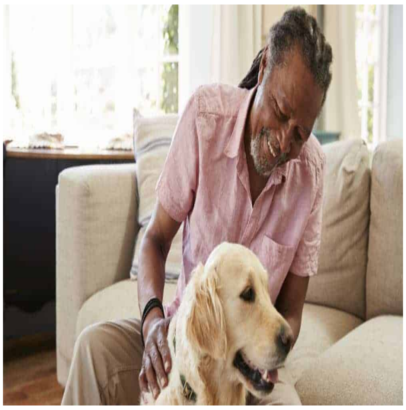

3 Stocks for a Reliable Source of Passive Income During Retirement

Description

Investing in dividend stocks will allow you to maintain a steady source of income during retirement. It's estimated that less than 40% of employed Canadians will get a pension during retirement. If you're in the majority that's expected to retire without a pension, then it's even more important that you find ways to sustain your lifestyle once you retire. However, investing in dividend stocks doesn't come down to finding stocks with the highest yield. There's a lot more that goes into it.

In this article, I'll discuss three stocks that could provide a reliable source of passive income during retirement.

Choose stocks with long histories of raising dividends

When building a dividend portfolio, investors should look for companies that have long histories of raising dividends. This is important to consider, because it indicates that a company is able to increasingly reward its shareholders as its business grows. It's important to note that not all dividend-paying companies are able to raise dividends every year.

The Canadian Dividend Aristocrat list is an excellent place to start looking. This is a list of all **TSX**-listed stocks that have raised distributions for at least five consecutive years.

Fortis (TSX:FTS)(NYSE:FTS) is a great example of an excellent dividend stock. At 47 years, it holds the second-longest dividend-growth streak in the country. It's able to do this because of the nature of its business. Providing regulated gas and electric utilities to 3.4 million customers in Canada, the U.S., and the Caribbean, Fortis doesn't experience any major decreases in demand during periods of market uncertainty.

Find stocks that can raise dividends faster than inflation

In addition to finding stocks that can raise dividends, it's important to consider the rate with which a company raises its dividend. If a company grows its dividend at a slower rate than inflation, then investors will see a loss in buying power over time. This isn’t what you’d like in a retirement portfolio, since you don’t have many other sources of income to compensate for that. Instead, look for companies that can raise their dividends at an annualized rate of 5% or higher.

goeasy (TSX:GSY) is an example of a stock that has managed to maintain a very impressive dividend-growth rate. In 2014, the stock paid a quarterly dividend of $0.085 per share. Last year, its quarterly dividend was $0.66 per share. That represents a CAGR of 34%, beating inflation by a wide margin. Of course, not all stocks will be able to pull that off, but ensuring you stay ahead of inflation is essential.

Look for stocks with low payout ratios

Finally, investors should look for stocks with low payout ratios. This is the proportion of its earnings that a company pays out in dividends. A low payout ratio assumes that a company is in a position where it can afford to spend more money to expand its operations. It also suggests that if a company wanted to raise its dividends in the future, it can do that more easily by pulling capital from other aspects of its business.

Generally, I look for dividend stocks with a payout ratio of 50% or lower. In specific cases, like REITs, this doesn’t apply. So, it’s important to identify those stocks and assess them differently. **Canadian National Railway** is an example of a great dividend stock with a low payout ratio. Currently, the company maintains a payout ratio of 36.5%.

CATEGORY

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2. TSX:FTS (Fortis Inc.)
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