Dividend Stocks: Can You Really Retire Early?

Description

Retiring early by investing in dividend stocks is a popular goal. Just do a quick Google search for *"retire early with dividend stocks,"* and you'll see countless articles written by people advising you on how to do it. Certainly, getting enough money passively to live on is a very fortunate situation to be in. The question is, can you really do it?

The average Canadian stock — as measured by the TSX Composite Index — only has about a 2.5% yield. You need to invest $1 million at that yield to get $25,000 a year in passive income. There's taxes on that income, too.

So, if you want to retire early with dividend stocks, you've got your work cut out for you. In this article, I will explore some facts you will need to consider before you decide whether you are in a position to retire early with dividend stocks.

The amount needed to retire in Canada

The biggest thing you need to know when deciding when to retire is how much savings you'll need. CPP and OAS combined typically don't pay enough to retire on. You may get enough to retire on if you have a generous employer sponsored pension — be warned, though, those pensions aren't usually inflation-indexed. Realistically, you're going to want some savings before you retire.

So, how much money do you need to retire?

According to a **CIBC** survey from 2018, the average Canadian thinks they need $750,000 to retire. That amount invested at a 2.5% yield pays out $18,750 per year. That's not bad, but it's not really enough to retire on in 2022. Throw CPP and OAS on top of $18,750 and you're looking at about $30,000 pre-tax. Maybe in 2018, that would have narrowly cut it, but there's been a lot of inflation since then. Today, a one-bedroom apartment in Toronto costs about $2,000 a month!

How to get a decent income from dividend stocks

As we've seen, it takes $750,000 invested at an average yield in order to get $30,000 a year combined from dividends, CPP, and OAS. It doesn't seem like much. However, it's possible to get close to $50,000 a year with the same amount invested.

For example, if you invest in a high-yield dividend stock like **Enbridge** (TSX:ENB)(NYSE:ENB), you can get a higher yield than the market average. Enbridge yields 6% — way higher than the TSX — so if you invest $750,000 in ENB, then you'll get $45,000 a year in dividend income. Throw CPP and OAS on top of that, and you end up with an amount you can live on in many Canadian cities.

The problem is that throwing all of your money into one stock increases your risk. Enbridge is an energy pipeline stock, meaning it faces countless risks:

- Regulatory hurdles
- Pipeline cancellations by U.S. officials
- Governors threatening to throw ENB out of their states entirely
- Slowing demand for oil (which may occur if EVs take off in a big way)

Put simply, any one stock like ENB could easily subject you to a big loss. It's not nearly as safe as just investing in an index fund. Perhaps, then, the ideal strategy would be to assemble a diversified portfolio of stocks with high yields. If you put together 20 stocks with 6% yields, spread across different industries, then your unsystematic risk would be reduced. You'd still get the same 6% yield, but in a more diversified package. That could indeed provide you with enough dividend income to retire on.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
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