Retirees: Buy These 3 TSX Utilities Stocks for Safe and Reliable Passive Income

Description

Retirement portfolios should provide those in their golden years with a stream of steady income that lasts for their expected lifespan. Hence, ensuring a safe, perpetual withdrawal rate is key. To ensure this, retirees should pick blue-chip, low-volatility stocks that have good dividend-growth potential.

The TSX utilities sector is perfect for this. This sector is characterized by large-cap companies with decades of operations, profitable management, and ever-increasing dividend payouts. Moreover, the utilities sector is highly defensive and able to stay profitable, even during recessions.

Why do we want utilities stocks?

Canadian utilities stocks are a great defensive play thanks to the following traits:

- A consistent +15-year streak of dividend payments and increases ("Dividend Aristocrats").
- High current 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 negative beta under zero indicates an inverse relationship.

Utilities stocks generally have all three of these traits. Having them as the core of your portfolio can provide steady income while minimizing volatility. 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.

Which utilities stocks should you buy?

If we apply the aforementioned criteria, these following three TSX utility stocks appear to be our best options:

1. **Fortis** (TSX:FTS)(NYSE:FTS): Dividend yield of 3.50%. Beta of 0.10

2. **Emera** (TSX:EMA): Dividend yield of 4.38%. Beta of 0.26
3. **Canadian Utilities** (TSX:CU): Dividend yield of 4.75%. Beta of 0.56

None of these stocks are crash-proof (market risk will always exist), but thanks to their low beta, they tend to move less with the market during times of turmoil.

Moreover, their dividend yields are very attractive, and they all show a streak of multi-decade-long payout increases. Buying during a downturn to lock in a low yield on cost can significantly boost your gains.

What are the risks?

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. Before you invest, make sure you consider these risks and make an educated decision as to how much to weight utility stocks in your portfolio.

- *Market risk:* Despite their low beta, these stocks could still crash during a bear market, as investors panic-sell risky stocks and move into bonds, even if they have great fundamentals. While they may recover, their share price could remain depressed for a while.
- *Dividend payout risk:* There is no guarantee that management will continue to pay a dividend, increase dividends, or maintain current payout ratios, even though, historically, they have.
- *Interest rate risk:* Utility stocks could be negatively impacted by rising interest rates as their debt becomes more difficult to service.
- *Regulatory risk:* Utilities that operate in an oligopoly run the risk of being constrained by anti-competition legislation or policy that could cap their profits or operations.
- *Concentration risk:* Investing most of your portfolio in a single sector can open you up to an unforeseen industry-specific event that radically changes, disrupts, or wipes out the companies you invest in.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:CU (Canadian Utilities Limited)
3. TSX:EMA (Emera Incorporated)
4. TSX:FTS (Fortis Inc.)

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