Prioritizing Goals for Your Retirement Portfolio

Description

Planning ahead is always best when it comes to building your retirement portfolio. You don't have to time the market if you plan to invest in solid businesses for a long time. Imagine buying a sleep-well-at-night dividend stock like **Fortis** (TSX:FTS)(NYSE:FTS) 30 years ago. You could pretty much ignore its valuation at the time and expect stable dividend growth and reasonable growth of your investment from price appreciation.

Even if you bought Fortis stock 20 years ago, you would have beaten the U.S. stock market returns of about 7.5% in the period by getting annualized returns of about 10.5%. You would have gotten about 250% greater dividend income and 44% greater price appreciation in the two decades. Your yield on cost of about 4.1% would have grown to 18.5% (assuming you only made that single investment 20 years ago).

Adding to the position over time would have lowered your yield on cost. However, your dividend income and absolute gains would increase. Therefore, while you don't have to time the market, timing the market whenever you can and buying solid dividend stocks at good or cheap valuations will help boost your dividend yield and total returns.

Prioritizing income for your retirement portfolio

If you're starting your retirement investment portfolio early, or you're close to or at retirement, you probably want to prioritize income. In the former case, essentially, you're taking lower risk by earning stable and substantial cash flows from your investments. In the latter case, you will be using income generated from your retirement portfolio soon if not now.

In most markets, you can find safe dividend stocks providing yields of 3-6%. The more you lean towards higher yields, the less growth you can expect. The lower growth is not necessarily bad. You can view it as you're being compensated for the slower growth with higher current income.

For example, **STORE Capital** is a decent holding for our RRSPs or RRIFs. STORE Capital is a net-lease REIT that generates stable and growing cash flows. STOR stock provides a juicy yield of about

5%, and it's expected to grow its funds from operations by about 5% on a per-share basis.

Assuming a fairly valued stock, it can deliver long-term annualized returns of about 10%. At $30.62 per share at writing, though, the analyst consensus 12-month price target on Yahoo Finance suggests it's undervalued by 12%, which is even better!

Focusing on growth

Alternatively, folks starting their retirement investment portfolios early might choose to take on greater risks by focusing on growth over income to attempt to increase their wealth more substantially. If so, low-yield stocks with greater growth potential would be your focus.

For instance, **Magna International** is a cyclical stock that yields 2.8%. Analysts estimate that the dividend-growth stock is undervalued by about 28%. So, the auto parts maker can deliver estimated annualized returns of about 15% over the next five years. It's a Canadian Dividend Aristocrat that has the ability to continue increasing its dividend. For reference, its five-year dividend-growth rate is about 9%.

The Foolish investor takeaway

The earlier you plan and build your retirement investment portfolio, the less risk you can take and still get satisfactory returns. Depending on your risk tolerance and the years you have until retirement, you can focus on current income to take lower risk or focus on higher growth that's perceived to be higher risk.

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