Retirees: 2 Dividend Stocks for Safe Income and Capital Protection

Description

Retirees can consider putting the money they don't need for the next few years in quality value/dividend stocks. This way, they can ride through the current market downturn. It's safer to plan for an investment time frame of at least three to five years for this capital. In other words, retirees should have sufficient cash and cash equivalents for their normal, everyday spending during this time so that they don't have to sell any stocks.

With that said, here are some dividend stocks that are trading at good valuations and provide safe income and decent capital protection.

Canadian bank stocks

Big Canadian bank stocks are a retirement portfolio favourite. They have paid dividends for over a century. Given the regulated operating environment, it's likely that their profits will be sustainable and steadily growing, leading to higher dividends over time. Right now, the Big Six Canadian bank stocks provide safe yields of about 3.8% to 4.9%.

To save the hassle of deciding which bank is a better buy today, retirees can simply consider buying **BMO Equal Weight Banks Index ETF** under the ticker TSX:ZEB. As the name implies, the Canadian bank exchange-traded fund provides exposure to the Big Six Canadian bank stocks in roughly equal weights — between about 15% and 18% of the fund in each. The fund yields about 3.3% at writing. There is an expense ratio of 0.60% to hold the ETF, though.

Retirees who prefer to hold individual stocks for income should note that **Bank of Nova Scotia** and **CIBC** provide the biggest income with yields of approximately 4.9% and 4.7%, respectively.

Real estate investment trusts

Real estate investing provides value from the income it generates as well as price appreciation potential. Real estate investment trusts (REITs) offer immediate diversification from the portfolio of properties they own.

Particularly, **Canadian Apartment Properties REIT** (TSX:CAR.UN) appears to trade at a compelling value after correcting about 26% from its 52-week high. The analyst consensus 12-month price target suggests the residential REIT actually trades at a substantial discount of 30%. In other words, it could potentially appreciate 42% over the next 12 months. Regardless, the stock provides a safe yield of 3.1% that's paid out as monthly cash distributions.

The REIT commands a premium valuation, which is understandable from its highly stable and steadily growing funds from operations (FFO) and high occupancy. Its payout ratio of about 62% this year will continue to sustain its healthy cash distribution.

Retirees can also invest passively in REITs through an ETF such as **iShares S&P/TSX Capped REIT Index** ETF under the ticker symbol TSX:XRE. This ETF is more diversified. Other than residential real estate, it also provides retail, office, and industrial real estate exposure. The ETF yields about 3% and charges an expense ratio of 0.61%.

If you're not bullish about retail and office REITs or want to be selective about the real estate exposure for your retirement portfolio, you should invest in individual REITs. By doing this, you can potentially get a higher yield and a better value.

CATEGORY

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1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

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