Retirement Planning: Now Is the Time to Buy Dividend Stocks

Description

Retirement planning requires planning ahead. One key component is investing excess cash. The U.S. market has entered bear market territory by falling more than 20%. The Canadian stock market has corrected only about 12%.

Central banks are raising interest rates to curb high inflation. Just last Wednesday, the Federal Reserve hiked the benchmark interest rate by 0.75%, which was the biggest jump since 1994, to 1.5-1.75%. This benchmark interest rate could cross over 3% by the end of the year.

The scenario is similar in Canada. On June 1, the Bank of Canada raised the target for its overnight interest rate by 0.50% to 1.5%. With the central banks expected to increase the benchmark interest rates higher through the year to aim to cool down inflation, market sentiment simply cannot be bullish.

A tremendous buying opportunity is accessible by all investors. If you have excess cash to invest, now is the time to start researching for potential stocks to buy. Stocks aren't necessarily risky. Within the realm of stocks, investors can choose lower-risk stocks for retirement planning — that is, stocks that they intend to hold through retirement. Among the most defensive stocks to own in retirement are quality dividend stocks that pay dividends through thick and thin.

Besides, in retirement, you want assets that generate income. Why not build your stock portfolio around dividend stocks during this market correction as a part of your retirement plan?

Quality dividend stocks on sale

For your retirement portfolio, investors should consider buying quality dividend stocks on sale. For example, the big Canadian bank stocks are becoming more attractive, as the bear roars on in this market decline.

One of the highest-yield bank stocks is **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). In its 2021 annual report, the bank explained that its core strategy included further strengthening its Canadian consumer franchise and growing its North American commercial banking, wealth management, and capital market operations. In the last 10 years or so, the bank has increased its dividend per share by about 6% per year — growth supported by its earnings growth.

At $64 and change per share at writing, the dividend stock offers a yield of almost 5.2%, which is decently compelling. Analysts think the bank trades at a nice discount of about 19%. However, it’s possible that it could fall lower over the next three to six months.

Assuming a long-term growth rate of 6% and a 5% dividend, an approximated long-term total return is about 11% assuming no valuation expansion. Valuation expansion can add another 4% to total returns.

The Foolish investor takeaway

The next three to six months could be a great time to accumulate quality dividend stocks at attractive discounts. In other words, now is the time to identify wonderful businesses from different sectors or industries that pay safe and juicy dividends. If you do this right, you can even hold these dividend stocks through retirement for essentially growing passive income.

What interested investors should do is determine the discount level they desire to buy these dividend stocks at — whether it’d be a minimum discount of 20% or 30%. Essentially, set buy targets for a basket of diversified quality dividend stocks and determine how you would allocate excess capital over the next months on the incredible buying opportunity in this market correction.

CATEGORY

1. Dividend Stocks
2. Investing

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