How Retirees Can Make Big Money and Hedge the Risk: Dividends Included!

Description

Although the oil sector has left many investors with a very bad taste in their mouths, the reality is that this may be the best place to make huge profits as interest rates increase. As the cost of borrowing increases, many companies will have to think twice before borrowing additional capital to undertake any major projects. The challenge for the industry is starting to come from the supply side – eventually the demand outweighs the existing production and inventory and prices rise. At the current price, many companies are not able to justify starting new projects.

For investors seeking exposure to this industry without taking an inordinate amount of risk, shares of **Inter Pipeline Ltd.** (TSX:IPL) are the most obvious choice. As the price of oil increases, the production in the Province of Alberta will be some of the first to come back online, which will increase revenues for this pipeline company. As this happens, the dividend yield of 6.75% will be only a small portion of the total return. As a reminder, shares traded in excess of $35 during the boom times. At a price under $25 investors are receiving an incredible bargain!

In order to hedge the risk of investing in this very volatile sector, investors (especially the retirees) will want to add shares of power companies, which are starting to take market share away from the oil producers. When we consider the amount of money that consumers have traditionally spent on the running of their vehicles, the large part of the fuel costs have gone to the purchase of oil. As more and more electric vehicles come online, the large share of wallet taken up by the consumption of oil is slowly moving to energy producers. It may be a good idea to balance out the portfolio!

In Canada, one of the companies that has underperformed for awhile and is starting to pick up steam is none other than **TransAlta Corporation** (TSX:TA)(NYSE:TAC), which currently trades at a price of $7.60 per share. In spite of a large number of high quality assets, the dividend yield is no more than 2.1%, which may be the reason why investors have shunned this name for so long. The good news is for patient investors is that the tipping point be not be far away.

As the company has continued to retain a large part of its free cash, the tangible book value continues to increase and make each share more valuable. In fact, at the current time shares trade at a 40% discount to tangible book value – an incredible deal!

In spite of many investors not wanting to take a large amount of risk, the truth is that it is perfectly acceptable to add certain names into a well- diversified portfolio in order to attain a much higher return.

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