

The Right Stocks for Retirement

The Motley Fool

By Robert Brokamp



I get this question all the time: Which stocks should I invest in if I want to retire comfortably?

And my answer is always the same: Stocks that regularly pay you to invest—that is, stocks that pay dividends. I have many reasons for this answer.

The skinny

First, if you're near retirement, it's time to start building the cash hoard on which you'll rely for living expenses. If you're in retirement, you want investments that will throw off income so you don't have to sell.

Second, most dividends are taxed at a rate of 15%, lower than work-generated income, short-term capital gains, and interest from most bonds.

Third, dividend-paying companies post real profits, have healthy cash flows, and have performed quite well over the long term with less volatility than the broader market. According to Standard & Poor's, dividend payers returned nearly 3 percentage points more per year than nonpayers from 1980 to 2002.

Put all of that together—regular income, lower taxes, historical outperformance, and less volatility—and you have a recipe for great retirement investments.

But there's more!

More reasons to love dividends

The historical 10% annual return from the stock market that folks always talk about is actually the sum of two components: capital appreciation and dividend yield. Since 1926, that 10% breaks down as follows: 4% (gains from dividends) plus 6% (capital gains).

With the S&P 500 currently yielding just 1.7%, you can see that if you want to achieve that golden 10% historical return going forward into retirement, you had better start looking for investments with above-average dividend yields. These would include such stocks as **Southern** (NYSE: SO), **New York Times** (NYSE: NYT), **Weyerhaeuser** (NYSE: WY), **Kraft Foods** (NYSE: KFT), and **Kimberly-Clark** (NYSE: KMB)—all of which have yields greater than the 1.7% the S&P 500 offers.

The Foolish bottom line

But there's a lot more to retirement than simply picking up shares of high-yielding stocks. That's why I help members of my *Rule Your Retirement* service through all of their retirement questions, including the right savings and withdrawal rates, how to plan for future expenses, the right strategies for deferring taxes, and even ways to travel around the world on a budget.

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Robert Brokamp, editor of Motley Fool Rule Your Retirement, does not own shares of any stock mentioned. Kraft is an Income Investor recommendation. The Motley Fool is [investors writing for investors](#).

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