2 Dividend-Growth Stocks for Long-Term Investors

Description

Most of the world's top investors favour stocks that pay dividends.

The strategy makes sense because the best companies to own over the long haul are ones that demonstrate the ability to grow revenues and earnings on a regular basis and distribute part of the profits to shareholders.

When the payouts are reinvested, stockholders can set in motion a powerful compounding process that has the ability to turn modest initial investments into sizeable sums.

With that strategy in mind, here are the reasons why I think **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) are solid picks.

Royal Bank

The Canadian banks are getting a lot of negative press these days as layoff notices and restructuring charges pile up, but investors should keep the big picture in focus.

It's true the industry is facing some difficult economic headwinds and a rapidly changing competitive environment, but the Canadian banks are profit machines, and that isn't likely to change.

Royal Bank reported nearly $2.5 billion in Q3 2015 earnings and recently raised its quarterly dividend to $0.79 per share. Management is fully aware of the trends in the market and is investing in areas that will deliver strong growth in the coming years.

Royal Bank is also partnering with upstart technology companies to make sure it stays ahead of the curve in the mobile banking wars.

Long-term investors have done very well by holding this stock and reinvesting the dividends in new shares. In fact, a single $10,000 investment in Royal Bank 15 years ago would now be worth about $49,000 with the dividends reinvested.

Canadian National Railway

Canadian National Railway is the only rail operator in North America that can offer its customers access to three coasts.

That's a great competitive advantage and the kind of situation long-term investors look for when deciding where they want to place their money.

Aside from having a fantastic rail network, Canadian National Railway is also an extremely efficient business. The company has one of the lowest operating ratios in the industry and does a excellent job of controlling costs when the economy hits a rough patch.

As a result, investors get a reliable cash flow stream that goes back into their pockets in the form of higher dividends and share buybacks. The stock has been a wonderful generator of wealth over the years, and there is little reason to think the trend won’t continue.

A $10,000 investment in Canadian National Railway 15 years ago would now be worth about $122,000 with the dividends reinvested.

CATEGORY

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TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:RY (Royal Bank of Canada)

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