



Attention Young Savers: Build Your RRSP Pension With These Top Stocks

Description

Canadians used to rely on defined benefit pensions to complement their CPP and OAS payments in the golden years.

That may still be the case for some fortunate baby boomers who got into the workforce when firms still offered attractive pension packages, but juicy company pensions are quickly going the way of the dodo.

Today, most young people consider themselves lucky if they can just secure a full-time job, let alone one with pension benefits.

As a result, Canadian workers are required to set aside savings to help them plan for their retirement years. One strategy is to hold dividend-growth stocks in an RRSP.

What's the attraction?

Dividends are not taxed while they are earned inside the RRSP, so savers can reinvest the full amount of the distributions in new shares of the company. This sets off a compounding process that can turn a small initial investment into a sizeable portfolio in retirement.

The same process can be used in the TFSA, but the RRSP contribution room is generally larger and the penalties for withdrawing funds from an RRSP tend to force investors to be more disciplined.

TFSA money is readily available without penalty, so it's a lot easier to dip into the funds to pay for a holiday or a new car.

Which stocks should you buy?

The best companies have long histories of dividend growth that's supported by rising revenue. Ideally, they also enjoy a sustainable competitive advantage and operate in sectors with wide moats.

With these thoughts in mind, let's take a look at why **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) and **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) look like solid bets.

Enbridge

Enbridge is not an oil and gas producer; it simply transports the commodities from the point of production to the end user and charges a fee for providing the service.

Installing the infrastructure is expensive, but once it is in place, there is little chance of a competing pipeline being built along the same route, and the asset simply acts as a tollbooth for decades to follow.

As long as throughput holds up, the model is pretty much a cash machine.

Recent difficulties in the energy sector have some pundits concerned that pipeline demand will drop in the coming years. An extended oil rout would certainly slow things down, but Enbridge has \$18 billion in commercially secured projects to keep it busy for the next three years. As the new assets go into service, investors should see cash flow increase enough to support an annual dividend boost of 8-10%.

If demand for new infrastructure doesn't rebound in the medium term, Enbridge is big enough that it can simply grow through acquisitions.

A \$10,000 investment in Enbridge just 15 years ago would now be worth \$113,000 with the dividends reinvested.

CN

CN is one of those stocks investors can buy and simply forget about for decades. The company has limited competition and is the only railway in North America with access to three coasts.

The substantial competitive advantages are important, but investors like CN because it is widely cited as the most efficient railway on the continent, and management does a great job of reducing costs to protect the bottom line.

As a result, earnings and free cash flow continue to roll out by the carload, even as the economy works its way through a rough patch.

The U.S. operations provide an important hedge against difficult times in Canada and profits generated south of the border translate into some sweet earnings when the loonie is in a swan dive.

CN recently increased its dividend by 20%, and investors have enjoyed an average annual dividend boost of about 17% over the past two decades.

A \$10,000 investment in CN 15 years ago would be worth \$118,000 today with the dividends reinvested.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

3. Investing
4. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:ENB (Enbridge Inc.)

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