Young Investors: 2 Dividend Stocks to Start Your RRSP

Description

Companies are moving away from pension benefits, and that means young Canadians have to take responsibility for their own retirement planning.

One way to do this is to own dividend-growth stocks in an RRSP and reinvest the dividends in new shares. This sets off a compounding process that can turn a small initial investment into a significant nest egg.

Why use the RRSP instead of a TFSA?

The penalties for removing money from the RRSP can help investors resist the temptation to tap into the funds to pay for a holiday or a new car. The TFSA doesn't have such restrictions because it is set up as a general savings tool, so people who have difficulty leaving their cash pile untouched should go the RRSP route.

Another reason is to reduce your taxes.

The tax benefits are more significant for people with high earnings, and some financial planners advise clients to sandbag the RRSP room until their salaries push through the next tax bracket. That makes sense, but the theory assumes you will actually make more money in future years and still have the discipline or ability to set it aside. It also assumes you will be in a lower tax bracket when you pull the funds back out.

Not everyone fits that mould, so there is an argument to be made for reducing your taxes as much as possible today. The value of money also comes into play.

Which stocks should you buy?

The best companies have long histories of dividend growth that's supported by rising revenues. Here are the reasons why **Telus Corporation** (TSX:T)(NYSE:TU) and **Fortis Inc.** (TSX:FTS) are good picks to get you started.

Telus

Telus operates state-of-the art wireless and wireline networks across the country and has a strong commitment to ensuring it provides the best levels of service in the industry.

The customer-first focus is paying off as Telus continues to add new TV, Internet, and mobile customers at a steady clip. Happy customers apparently like to spend because Telus has booked 22 consecutive year-over-year increases in blended average revenue per user.

Management is careful to look after shareholders, too. The company has an aggressive share-buyback program and raises the dividend on a regular basis. The current distribution offers a yield of 4.5%, and investors should see dividend growth of 7-10% per year through 2019.

A $10,000 investment in Telus 20 years ago would be worth $73,000 today with the dividends reinvested.

Fortis

Fortis is a natural gas and electricity utility with assets located in Canada, the United States, and the Caribbean.

The company has expanded its U.S. holdings in recent years, and that trend continues with the recent announcement of a US$11.3 billion deal to acquire **ITC Holdings Corp.**, the largest independent pure-play transmission company in the United States.

Management has a strong track record of integrating new companies into the fold, and there is little reason to believe things will be different this time.

Fortis is popular with dividend investors because most of the revenue comes from regulated assets. This means cash flow should be reliable and predictable, which is key for sustainable dividends.

Fortis has increased its payout every year for the past four decades, and investors should see steady growth continue. The stock currently yields 3.7%.

A $10,000 investment in Fortis 20 years ago would now be worth $210,000 with the dividends reinvested.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:TU (TELUS)
2. TSX:FTS (Fortis Inc.)

3. TSX:T (TELUS)

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