RRSP Investors: 2 Top Dividend Stocks to Get You Started

Description

Canadians are using their RRSP accounts to set aside cash for retirement, and many are turning to dividend stocks to help boost their returns.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) to see why they might be interesting picks for your RRSP.

CN

CN is literally the backbone of the Canadian and U.S. economies with routes running coast to coast across Canada and down through the heart of the United States.

As the only rail operator that can offers access to three coasts, CN has a distinct competitive advantage, but management still works hard at finding ways to make the business more efficient. The company's operating ratio, which measures expenses as a percentage of revenue, is regularly the lowest in the industry, and CN is widely viewed as the best-run railway in North America.

The U.S. operations provide a nice hedge against weakness in the Canadian economy, especially when the loonie drops. For example, every dollar of profit generated south of the border is currently worth about CAD$1.31.

Long-term investors have enjoyed strong dividend growth over the years, and that trend continues. CN raised its dividend by 25% in 2015 and hiked the payout another 20% earlier this year.

The company generates significant free cash flow and continues to be very profitable, even during a slow period in the economy.

What about returns?

A $10,000 investment in CN just 15 years ago would be worth $124,000 today with the dividends reinvested.

TD

TD is widely viewed as Canada’s most conservative bank.

Why?

The company gets most of its revenue from bread-and-butter retail banking and relies less on more volatile segments, such as capital markets.

Some investors are concerned the energy rout and an overheated housing market could hammer all of the Canadian banks, but risk levels vary.

TD’s direct exposure to oil and gas companies represents less than 1% of its total loans, so there isn’t much concern on that front. Regarding housing, TD has about $250 billion in Canadian residential mortgages. Half of the loans are insured and the loan-to-value ratio on the remaining mortgages is 58%, so house prices would have to fall significantly before TD takes a meaningful hit.

The company has built a substantial U.S.-based retail business over the past decade, and TD now has more branches south of the border than it does in Canada. As with CN, the American operation provides investors with a great way to benefit from economic growth in the United States.

TD’s dividend has increased an average of 12% per year over the past two decades, and the current payout provides a yield of 3.7%.

A $10,000 investment in TD just 15 years ago would be worth $57,000 today with the dividends reinvested.

Is one a better RRSP Pick?

Both CN and TD are market leaders with strong track records of delivering stellar returns to investors. As such, both are solid RRSP picks.

Earlier in the year I would have given CN the edge, but the stock has rallied to the point where it is probably a draw between the two names today.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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2. NYSE:TD (The Toronto-Dominion Bank)
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