RRSP Investors: 2 Dividend-Growth Stocks to Hold for 20 Years

Description

Canadian investors are starting to think about the 2016 RRSP contribution deadline.

Ideally, we would all deposit to our RRSP accounts on a regular basis throughout the year, but the reality is that many of us simply wait to see if we survive the year-end holidays with our heads above water, and then scramble to make contributions before the end of February.

At the end of the day, it doesn't really matter when we put the money aside — just as long as we do it.

Which stocks should you pick?

For investors with self-directed accounts, the big decision revolves around where to allocate the funds.

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 good picks to buy and hold for the next couple of decades.

CN

CN is the only rail company in North America that can offer its customers access to three coasts. This is an important competitive advantage, and one that is unlikely to change.

Why?

Merger attempts in the rail industry tend to run into significant regulatory roadblocks, and there is almost no chance new rail lines will be built alongside the existing routes.

CN still has to compete with trucking companies and other railroads along some segments, so management works hard to ensure costs remain under control and the company operates as efficiently as possible.

In fact, CN regularly posts the top operating ratio in the sector and is often cited as the best-run company in the rail industry.

The business generates carloads of free cash flow, and the executive team does a good job of sharing the rewards with investors. CN raised the dividend 20% last year and has a compound annual dividend-growth rate of about 17% over the past two decades.

Long-term holders of this stock have made out like bandits. A single $10,000 investment in CN just 20 years ago would be worth $364,000 today with the dividends reinvested.

TD

TD is widely viewed as Canada's most conservative bank. The company gets most of its revenue from retail banking activities and relies less than its peers on more volatile segments, such as capital markets.

This strategy has helped the bank weather tough times somewhat better than the other big names and benefit handsomely when things are rolling along just fine.

Right now, the company's strong U.S. business is catching the eye of investors as Canada faces some economic headwinds.

TD actually has more branches south of the border than it does in the home market, and the improving U.S. economy, as well as the strong American dollar, should provide hedges against any weakness in the Canadian business.

In fact, that is already proving to be the case. TD reported relatively flat year-over-year fiscal Q4 2016 earnings from the Canadian retail banking operations, but it saw profits jump 18% in the U.S. segment.

TD is also a dividend-growth champion with a compound annual dividend-growth rate of about 12%. The current payout offers a yield of 3.3%.

What about returns?

A $10,000 investment in TD just 20 years ago would be worth $156,000 today with the dividends reinvested.

Is one a better pick?

Both stocks are solid buy-and-hold investments for an RRSP account. CN looked more attractive six months ago, but, at this point, I would probably call it a draw between the two names.

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