Dividend-Growth Stocks: The Secret Weapon for Building RRSP Wealth?

Description

Canadian investors are looking for ways to set aside adequate cash for a comfortable retirement.

In the past, GICs and Canada Savings Bonds offered attractive, worry-free yield, so investors didn't spend as much time considering other options for their RRSP accounts.

Today, however, low interest rates are making it harder to meet retirement goals, and investors are desperately searching for other ways to grow their savings.

Fortunately, one tried-and-tested strategy to build retirement wealth is still available to Canadian savers.

What is it?

Buy dividend-growth stocks inside the RRSP and reinvest the distributions in new shares.

The process harnesses the power of compounding and can turn a modest initial investment into a large retirement nest egg over time, as you will see in a moment.

Which stocks should you buy?

Many investors simply look for companies with the highest yields, but dividend growth is more important than current yield in the long run.

Let's take a look at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see why they might be interesting picks.

Enbridge

Enbridge is in the process of buying **Spectra Energy** for $37 billion in a deal that will create North America's largest energy infrastructure company.

Current woes in oil and gas sector combined with public opposition to new mega pipelines probably spurred the takeover, but investors are set to benefit as a result.

Enbridge and Spectra have $26 billion in commercially secured near-term projects under development. As these assets are completed, Enbridge expects to see cash flow increase enough to support annual dividend growth of at least 10% through 2024.

The company already has a long track record of raising the payout with a 14% compound annual dividend-growth rate over the past 10 years.

The current distribution yields 4.1%.

Long-term investors have done well holding this stock. A single $10,000 investment in Enbridge just 20 years ago would now be worth $315,000 with the dividends reinvested.

That translates into an annualized return of close to 19%.

CN

CN is the only railway in North America that can offer its customers access to three coasts. That's a powerful competitive advantage that investors shouldn't take lightly.

The business serves as the literal backbone of the Canadian and U.S. economies, and while times of growth or economic weakness can come and go, CN continues to pull in significant profits.

Management has always been very generous when it comes to sharing the spoils with investors. The company has an aggressive share-buyback program and has an average dividend-growth rate of 16.5% over the past decade.

The current dividend yield is 1.6%.

What about returns?

A $10,000 investment in CN just 20 years ago would now be worth $384,000 with the dividends reinvested. That's an average gain of 20% per year.

The bottom line

The market is full of similar opportunities, and investors simply have to find the names that fit their investment style and then be patient enough to let the system work.

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