Young Investors: Why Do Dividend Stocks Belong in Your RRSP?

Description

Young Canadians are concerned they might not be able to save enough for retirement.

Why?

Interest rates on GICs are abysmal, defined-benefit pensions are disappearing, and house prices might not be much higher 25 years from now than they are today.

So, the tools their parents and grandparents have relied on might not be very useful for millennials looking to bank some cash for the golden years.

Fortunately, there is one proven savings method that young investors can still use to meet their retirement savings goals.

The trick to building retirement wealth

Buying dividend-growth stocks and reinvesting the dividends in new shares sets off a powerful compounding process that can turn a modest initial investment into a significant cash stash.

The secret lies in making contributions on a regular basis and having the discipline to let the system do its work.

Investors can also use TFSAs to achieve this goal, but the money is easy to get at in a TFSA, making it more likely you will be tempted to dip into the savings for a one-off purchase.

Which stocks should you buy?

The best companies have long track records of dividend growth supported by rising earnings.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see why it has proven to be a solid pick.

CN is the only railway company in North America that can offer its customers access to three coasts.

This is an important competitive advantage that is unlikely to change.

Railway merger attempts tend to hit regulatory roadblocks, and the odds of new tracks being built alongside the existing routes are pretty slim.

CN still has to compete with trucks and other rail companies on some routes, so management works hard to ensure the business is running as efficiently as possible.

In fact, they do such a good job that CN is widely viewed as the best-run company in the industry.

The business generates significant free cash flow, and CN is generous when it returns the profits to investors. The compound annual dividend growth rate has been about 17% over the past two decades, and CN has an aggressive share-repurchase program.

What about returns?

Long-term investors have done very well with this stock.

A single $10,000 investment in CN just 20 years ago would be worth $372,000 today with the dividends reinvested.

The bottom line

Saving for retirement doesn’t have to be stressful.

Young investors can still build a substantial portfolio by simply owning top dividend-growth stocks and reinvesting the distributions.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

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