A Top Canadian Dividend Stock to Consider for Your TFSA Retirement Fund

Description

Canadian savers are searching for ways to set some cash aside for the golden years.

In the past, this wasn't a concern for many people, as defined-benefit pension plans pretty much took care of the retirement funding.

Today, those programs are becoming rare, and companies are switching to defined-contribution benefits, which shift the risk to the employees and don't guarantee set retirement income amounts.

In addition, contract work is becoming more common, and people in that situation are forced to shoulder the full burden of putting some cash aside for the future.

Fortunately, there are other ways to save for retirement, and one strategy involves holding dividend-growth stocks inside a Tax-Free Savings Account (TFSA).

The TFSA protects all income from the taxman, so the full value of the dividends that are earned can be invested in new shares. This sets off a powerful compounding process that can turn a modest initial investment into a nice nest egg over time.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see why it might be an interesting pick.

Strong results

Royal Bank is an earnings machine. The company reported fiscal Q2 2017 net income of $2.8 billion, representing a 9% increase over the same period last year.

That's right; the company makes nearly a billion dollars per month!

Some investors are concerned a pullback in the Canadian housing market will hit the banks hard. It’s true that a total meltdown could cause some pain, but Royal Bank’s mortgage portfolio is capable of riding out some tough times.

Why?

Insured mortgages represent 48% of the loans, and the loan-to-value ratio on the remaining part of the portfolio is 51%. This means house prices would have to fall significantly before the bank takes a material hit.

Royal Bank has a diversified revenue stream with capital markets, wealth management, and insurance operations to go along with the personal and commercial banking segments. The company is also expanding its presence in the United States, which should provide an additional hedge against any weakness that occurs in the Canadian retail market.

Dividends

Royal Bank has paid a dividend every year since 1870, and the odds are pretty good the track record will continue. The distribution has grown by an average of 8% per year over the past decade and currently yields 3.7%.

Returns?

A $10,000 investment in Royal Bank 20 years ago would be worth about $110,000 today with the dividends reinvested.

The bottom line

There is no guarantee Royal Bank will generate the same results over the next two decades, but the strategy of buying top dividend stocks and reinvesting the dividends is a proven one.

With the TFSA, Canadian investors have another option to invest for the future, and they don’t have to worry about handing over any of the gains to the taxman when the time comes to enjoy the money.

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