RRSP Investors: A Top Canadian Dividend Stock to Start Your Retirement Portfolio

Description

Canadian investors are searching for ways to build a comfortable retirement fund.

The effort is more important today than it has ever been, especially for younger investors who might not have adequate pension plans provided by their employer.

In addition, the age-old strategy of relying on a house to provide a retirement safety net is either not possible or not appropriate in some parts of the current housing market.

As a result, many investors are turning to dividend stocks to help set aside the cash they need for the golden years.

Which stocks should you buy?

The best companies are market leaders with strong track records of dividend growth. Ideally, they also operate in industries with high barriers to entry.

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

Essential service

CN is literally the backbone of the Canadian and U.S. economies and is the only operator with a network that touches three coasts.

This is a strong competitive advantage that isn't likely to change anytime soon.

Why?

The odds of new lines being built along the same routes are slim, and merger attempts in the industry tend to run into regulatory problems.

Diversified revenue

The company has a balanced revenue stream coming from a variety of segments, ranging from commodities to cars.

When one area of its business runs into a rough patch, the other business groups tend to pick up the slack. For example, low oil prices might reduce oil shipments, but they also lower CN's operating costs and make driving more affordable, which can boost demand for automobiles.

CN also generates a significant part of its earnings in the United States, which provides a nice hedge against an economic downturn in Canada.

Dividend growth

CN generates significant free cash flow, and the company does a good job of putting the profits in the hands of its investors. The stock has a compound annual dividend-growth rate of more than 16% over the past 20 years.

Some investors skip CN because the yield is just 1.6%, but that approach can result in a missed opportunity.

Returns

A $10,000 investment in CN two decades ago would be worth about $240,000 today with the dividends reinvested.

The bottom line

There is no guarantee that CN will produce the same results in the next 20 years, but the strategy of buying quality dividend stocks and investing the payouts in new shares is a proven one.

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