RRSP Investors: 2 Canadian Dividend Stocks to Own for 20 Years

Description

Canadian savers are searching for reliable dividend stocks to hold inside their self-directed RRSP portfolios.

The strategy makes sense, especially when the distributions are invested in new shares.

Why?

This sets off a powerful compounding process that can turn a modest initial investment into a significant nest egg over time.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see why they might be interesting picks.

Royal Bank

Royal Bank is a profit machine.

The company reported fiscal Q2 2017 earnings of $2.8 billion for the three-month period ended April 30, representing a 9% improvement over the same period last year.

The strong results can be attributed to the company's balanced revenue stream, which includes contributions from personal and commercial banking, capital markets, insurance, and wealth management activities.

Royal Bank continues to seek growth opportunities, including the big U.S. acquisition in late 2015. The company purchased California-based City National for US$5 billion in a deal that provided Royal Bank with a solid platform to expand its presence in the private and commercial segment south of the border.

Some investors are concerned a housing meltdown in Canada could hammer the banks. A steep price decline over a short period of time would definitely have a negative impact, but most analysts are calling for a gradual pullback.

Royal Bank's mortgage portfolio is large, but 48% of the loans are insured, and the loan-to-value ratio on the uninsured mortgages is 51%. This means house prices would have to fall significantly before the bank sees a material hit.

The company has a strong track record of dividend growth, and long-term investors have done well with this stock.

A $10,000 investment in Royal Bank 20 years ago would be worth about $112,000 today with the dividends reinvested.

CN

CN also churns out some serious profits and does a good job of returning the spoils to investors.

The company reported Q2 2017 net income of $1.03 billion, representing a 20% increase over the same period last year.

Free cash flow came in at $811 million compared to $585 million in Q2 2016.

CN is truly one of those stocks you can buy and forget about for decades. The company is an industry leader with very efficient operations and enjoys a wide moat.

CN is the only railway company in North America that owns tracks touching three coasts. Railway merger attempts tend to run into regulatory roadblocks, and the odds of new lines being built along the same routes are pretty slim.

The company's annualized dividend-growth rate is about 16% over the past 20 years.

What about returns?

A $10,000 investment in CN two decades ago would be worth about $235,000 today with the dividends reinvested.

The bottom line

There is no guarantee that Royal Bank and CN will generate the same results over the next 20 years, but the strategy of buying great dividend stocks and investing the distributions in new shares is a proven one.

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Date
2025/08/19
Date Created
2017/08/10
Author
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