RRSP Investors: 2 Top Canadian Dividend Stocks to Buy as Interest Rates Rise

Description

Canadian investors are searching for top-quality stocks to put in their self-directed RRSP portfolios.

A popular strategy involves buying dividend-paying companies and reinvesting the distributions in new shares to take advantage of the power of compounding.

Over time, the initial investments can grow substantially and set you up with a nice retirement nest egg.

With interest rates starting to move higher, investors have to be more careful about the stocks they choose, as some companies could find they have less cash available to hand out to investors.

Which stocks should you buy?

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

CN

CN is literally the backbone of the Canadian and U.S. economies, carrying raw materials and finished products along a vast rail network that touches three coasts.

The diversified business segments provide a balanced revenue stream, and when one group has a rough quarter, the others tend to pick up the slack. CN also generates a significant part of its earnings in the U.S., which provides a nice hedge against difficult times in Canada.

Interest rates tend to rise during times of economic growth, and that generally bodes well for CN and the other railways.

The company has a stellar track record of dividend growth and is extremely efficient. If you want a stock to stick in your RRSP for the next 25 years, CN is an attractive pick.

Bank of Nova Scotia

Rising interest rates tend to be positive for banks because they provide a boost to margins and can improve the return the banks gets from funds they have to set aside to cover deposits.

The impact on borrowers, however, is also worth considering. As interest rates rise, there is a risk that some people will default on their loan payments, including mortgages.

That said, fears about a housing meltdown in Canada are probably overblown, and the banks are more than capable of riding out a downturn in house prices.

Bank of Nova Scotia is particularly attractive due to its diversified revenue stream. The bank's international division generates about 30% of the company's profit, providing investors with some protection against any downturn in the Canadian economy.

Investors with a long-term outlook should also consider the potential growth from Bank of Nova Scotia's international business, which is primarily focused on Mexico, Colombia, Peru, and Chile. These four countries represent a consumer market of more than 200 million people and have formed the Pacific Alliance trade bloc to promote the free movement of capital and goods.

Bank of Nova Scotia pays a reliable dividend with an attractive 4% yield.

The bottom line

Top companies should perform well in any rate environment, but it makes sense to consider the impact of higher rates when choosing new stocks for your RRSP portfolio.

Not all dividend stocks are equal, and some that already offer above-average payouts should continue to outperform, even as interest rates rise.

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