New RRSP Investors: 2 Stocks to Buy Today and Own for 20 Years

Description

Canadians are searching for ways to set some cash aside for retirement.

One popular strategy involves owning dividend stocks inside a self-directed RRSP account and reinvesting the dividends in new shares. This harnesses the power of compounding and can turn a modest initial investment into a significant nest egg over time.

Let's take a look at two companies that might be attractive picks to get you started.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI)

CN is the only rail company in North America that owns lines connecting three coasts. The advantage is an important one, and, fortunately for investors, it isn't likely to change anytime soon.

Why?

Attempts to merge rail companies tend to run into regulatory roadblocks, and the odds of new tracks being built along the same routes are pretty slim.

CN still has to compete with trucking companies and rail operators on some routes, so management works hard to keep the company running as efficiently as possible.

In fact, CN is widely viewed as the best-run business in the sector and regularly reports an industry-leading operating ratio.

The company generates significant free cash flow and is generous when it comes to sharing the profits with investors. CN's compound annual dividend-growth rate is close to 16% over the past 20 years.

A $10,000 investment in CN two decades ago would be worth about $230,000 with the dividends reinvested.

Fortis Inc. (TSX:FTS)(NYSE:FTS)

Fortis owns natural gas distribution, power generation, and electric transmission assets in Canada, the United States, and the Caribbean.

Most of the growth in recent years has been in the United States, including last year's $11.3 billion acquisition of ITC Holdings.

Investors like Fortis because the majority of its revenue comes from regulated assets. This means cash flow should be both predictable and reliable, which is great for a dividend-focused portfolio.

Fortis plans to raise its distribution by 6% per year through 2021. The company has increased the payout every year for more than four decades.

Buy-and-hold investors have done well with this stock. A $10,000 investment in Fortis 20 years ago would be worth about $100,000 today with the dividends reinvested.

The bottom line

There is no guarantee these two stocks will generate the same returns over the next 20 years, but the strategy of owning top-quality dividend-growth stocks and reinvesting the dividends is a proven one.

With time and patience, Canadian savers can build a comfortable RRSP portfolio.

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Date
2025/08/24

Date Created
2017/10/07
Author
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