Young Investors: 2 Dividend Stocks to Boost Your Retirement Savings Fund

Description

Canadians are searching for reliable ways to save enough for their retirement years.

The issue wasn't such a big deal 20 or 30 years ago, as most people found full-time jobs right after graduation, and companies generally offered decent retirement benefits.

These days, however, young investors are faced with a very different employment market. Contract work is more common than it was in the past, and the full-time opportunities that exist often come with pension benefits that are not as generous as those enjoyed by previous generations.

Defined benefit plans are becoming rare, and defined contribution plans, when offered, shift the risk onto the shoulders of the employees.

As a result, young Canadians are increasingly forced to set up their own savings program through a TFSA or RRSP.

One way to build a cash stash inside the RRSP or TFSA is to own quality dividend-growth stocks and invest the distributions 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 **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see why they might be interesting picks.

Fortis

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

The company gets the majority of its revenue from regulated assets, which means cash flow should be predictable and reliable.

Economic times can be good or bad, but people always have to heat their homes and cook their food, so demand for the products and services Fortis provides should be steady.

The company has raised its dividend every year for more than four decades and plans to increase the payout by at least 6% per year through 2021. The current payout provides a yield of 3.5%.

A $10,000 investment in Fortis 20 years ago would be worth about $100,000 today with the dividends reinvested.

Royal Bank

Royal Bank generated $2.8 billion in profits in fiscal Q3 2017. That's a serious amount of money for three months of work.

The secret lies in the company’s balanced revenue stream, with strong operations in wealth management, capital markets, and personal and commercial banking. Royal also has an insurance business, but the company sold off part of the business, so it is less influential than in the past.

The company sees growth opportunities in the United States and spent US$5 billion in late 2015 to acquire a private and commercial bank based in California.

Royal has a strong track record of dividend growth, and investors should see steady returns continue in the years to come.

A $10,000 investment in Royal Bank two decades ago would be worth close to $110,000 today with the dividends reinvested.

The bottom line

There is no guarantee these companies will generate the same performance in the next 20 years, but the strategy of buying quality dividend stocks and reinvesting the distributions is a proven one.

Young Canadians have time as their ally and can use a TFSA or RRSP to build an attractive retirement savings fund to complement their other pension income.

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