# Rookie Investors: A Top Canadian Dividend Stock to Start Your RRSP

## Description

Canadians are searching for ways to set aside adequate funds to cover their retirement spending needs. In the past, this wasn't such a big issue, as most college and university grads could easily find full-time work shortly after completing their studies.



Today, the employment market is different, and contract work is much more common. This means young Canadians often find themselves without pension benefits for years before they finally secure a full-time position that includes the additional perks.

When a full-time gig is found, the pension benefits can vary significantly. As a result, most people are advised to set aside some additional cash to plan for retirement.

One strategy involves holding dividend stocks inside RRSP accounts and investing the distributions in new shares.

Why is this attractive?

Over time, the power of compounding can turn a modest initial investment into a nice cash stash, especially when steady dividend growth is combined with a rising stock price.

Let's take a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) to see why it might be an interesting pick.

**Earnings strength**

TD earned nearly $2.8 billion in fiscal Q3 2017. That's some serious profits for just three months of operations.

Earnings per share rose 18% compared to the same period last year, supported by strong results in both Canada and the United States.

**U.S. exposure**

The bank is primarily known for its Canadian retail operations, but TD actually has more branches south of the border than it does in the home country.

The American business provides a nice hedge against any potential weakness in the Canadian economy, and earnings results can get a nice boost when the U.S. dollar strengthens against the loonie.

**Dividend growth**

TD has a strong track record of dividend growth. In fact, the payout has a compound annual growth rate of 10% over the past 20 years.

Management expects earnings per share to grow by at least 7% per year in the medium term, so investors should see the dividend continue to increase.

**Risks**

Some pundits are concerned the Canadian housing market could cause trouble for TD and its peers in the coming years. It's true that a total meltdown would be negative, but TD's portfolio is more than capable of riding out some tough times.



Why?

Insured mortgages represent 44% of the loans, and the loan-to-value ratio on the rest is 53%. This means house prices would have to fall significantly before TD had a material impact.

**Returns**

A $10,000 investment in TD two decades ago would be worth more than $100,000 today with the dividends reinvested.

**The bottom line**

Owning reliable dividend-growth stocks and reinvesting the dividends is a proven strategy for building a retirement savings fund over time.

While there is no guarantee TD will generate the same results in the next 20 years, the company should remain one of the top buy-and-hold dividend picks in the market.

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