Retirement Investors: A Top Dividend Stock to Start Your RRSP

Description

Young Canadians are searching for ways to set aside enough cash to fund a comfortable retirement.

This wasn't always a big concern, as people historically found good full-time jobs right out of college or university and relied on generous pension plans to cover their expenses in the golden years.

Today, however, contract work is more common, and when a full-time position comes along, the benefits can vary widely, especially when it comes to pension plans.

As a result, young people are increasingly required to put cash aside for their retirement, and holding dividend stocks inside an RRSP is one popular strategy.

Why?

The contributions are used to reduce taxable income, and the distributions can be invested in new shares to harness the power of compounding.

Over time, a modest initial investment can grow to be a nice nest egg.

Let's take a look at **Fortis Inc.** (TSX:FTS)(NYSE:FTS) to see why it might be an interesting pick.

Fortis

Fortis owns natural gas distribution, power generation, and electric transmission assets in Canada, the United States, and the Caribbean. The company gets most of its revenue from regulated assets, which means cash flow should be predictable and reliable.

Most of the growth in recent years has occurred in the United States, including the 2014 acquisition of UNS Energy for US$4.5 billion and the 2016 purchase of ITC Holdings for US$11.3 billion. The company now has a majority of its businesses located in the United States, making the stock attractive for investors who want exposure south of the border.

The new assets are performing well, and Fortis just increased its five-year capital plan, which should boost the rate base significantly.

As a result, the company plans to raise its dividend by at least 6% per year through 2022.

Fortis has increased the payout every year for more than four decades, so investors should feel comfortable with the guidance.

Long-term owners of the stock have enjoyed some impressive returns. In fact, a $10,000 investment in Fortis 20 years ago would be worth more than $100,000 today with the dividends reinvested.

The bottom line

There is no guarantee Fortis will deliver the same results over the next two decades, but the strategy of buying top dividend-growth stocks and investing the distributions in new shares is a proven one.

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