



## A Reliable Dividend Stock to Start a New TFSA Retirement Fund

### Description

Young Canadians are searching for ways to set aside some cash for their [retirement](#).

This wasn't always a big concern for new grads and young professionals, but the employment world has changed significantly in recent years.

What's going on?

Contract work is more common, and the full-time jobs that are available often come with pension benefits that are less attractive than those enjoyed by the boomers, or even the first wave of the Gen X crowd.

As a result, many millennials are forced to look after their own retirement planning.

One strategy involves holding dividend-growth stocks inside a TFSA and investing the distributions in new shares. This harnesses the power of compounding and can turn a modest initial investment into a nice nest egg over the course of a few decades.

When the time comes to cash out and enjoy the money, all the gains are tax-free.

Let's take a look at **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) to see why it might be an interesting pick.

### Earnings

Royal Bank just reported strong earnings. The company generated net income of \$2.837 billion for fiscal Q4 and \$11.469 billion for the entire fiscal 2017 year.

Those are some impressive numbers.

Earnings rose 11% in the personal and commercial banking operations, 25% in the wealth management division, and 11% in the capital markets group.

Insurance earnings rose 9% on an adjusted basis after the sale of part of the business is taken into consideration.

The balanced revenue stream is a big reason for the company's success, and investors could see more diversification in the coming years, especially in the United States, where Royal Bank made a US\$5 billion acquisition in late 2015.

## Risk

Some investors are concerned a downturn in the Canadian housing market will hit the Canadian banks. It's true that a total meltdown would be negative, but most analysts predict a gradual reduction in house prices.

Royal Bank's Canadian residential lending portfolio is large at \$272 billion, but insured loans represent \$88.9 billion of the total, and the loan-to-value ratio on the \$183.1 billion in uninsured mortgages is 49%. This means house prices would have to come down significantly before the bank sees material losses.

## Dividends

Royal Bank has a strong track record of [dividend growth](#), and that trend should continue.

The current payout provides a yield of 3.6%.

## Returns?

A \$10,000 investment in Royal Bank 20 years ago would be worth more than \$100,000 today with the dividends reinvested.

## The bottom line

There is no guarantee that Royal Bank will generate the same returns over the next 20 years, but the strategy of buying top dividend-growth stocks and investing the distributions in new shares is a proven one.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## POST TAG

1. Editor's Choice

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1. NYSE:RY (Royal Bank of Canada)
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