2 Dividend-Growth Stocks to Start Your RRSP Portfolio in 2018

Description

Canadians are searching for reliable stocks to put inside their Registered Retirement Savings Plan (RRSP) portfolios.

The RRSP is a popular vehicle for setting cash aside for the golden years, especially for investors who find themselves in a higher tax bracket, as the contributions can be used to reduce taxable earnings.

In 2018, an investor can contribute 18% of 2017 earned income, up to a maximum of $26,230. Any “deduction room” that is not used can be carried forward into future years.

RRSP funds are taxed at withdrawal; young people can defer the tax hit for decades, while allowing the funds to grow.

Which stocks should you buy?

Companies with strong track records of dividend growth are popular picks, especially with investors who take advantage of the power of compounding and invest the distributions in new shares.

Let’s take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Fortis Inc.** (TSX:FTS)(NYSE:FTS) 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.

Most of the investment in recent years has occurred in the United States, including the US$4.5 billion purchase of UNS Energy in 2014 and the 2016 acquisition of ITC Holdings for US$11.3 billion.

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

Management is targeting dividend growth of 6% per year through 2022. Fortis has raised the payout every year for more than four decades, so investors should be comfortable with the guidance.

The current distribution provides a yield of 3.7%.

A $10,000 investment in Fortis 20 years ago would be worth more than $90,000 today with the dividends reinvested.

Royal Bank

Royal Bank reported record net income of $11.47 billion for fiscal 2017, representing a 10% increase over the previous year.

That’s almost $1 billion in profit every month!

The company’s success lies in its balanced revenue stream, with strong personal and commercial banking, wealth management, and capital markets divisions.

Management spent US$5 billion at the end of 2015 to acquire City National, a California-based private and commercial bank. The division is performing well and provides Royal Bank with a nice platform to expand its presence in the sector.

Royal Bank has a solid track record of dividend growth and investors should see the trend continue. The stock currently generates a yield of 3.5%.

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 Fortis and Royal Bank will deliver the same returns over the next two decades, but the strategy of owning dividend-growth stocks and investing the distributions in new shares is a proven one for RRSP investors.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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2. NYSE:RY (Royal Bank of Canada)
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aswalker