A Top Canadian Dividend Stock to Start Your TFSA Pension Fund

Description

Millennials are faced with some retirement-savings challenges that were not present at the time their parents or grandparents started their careers.

What's going on?

In the old days, a young person could reasonably expect to secure full-time employment with a measurable career path and decent pension benefits shortly after graduation. Today, contract work is much more common for the first few years, and when a full-time gig does come around, the benefits offered can vary significantly, especially when it comes to pensions.

In addition, some young people are making a conscious decision to be self-employed. Others prefer the freedom that comes with moving from one contract to the next. Switching careers and industries is also more common in the new employment world.

As a result, many young Canadians are responsible for part or all of their retirement planning, and one strategy involves holding dividend stocks inside a Tax-Free Savings Account (TFSA).

The TFSA protects all earnings and capital gains from the taxman, so the full value of distributions can be invested in new shares, and any capital gains that occur when the time comes to cash out are yours to keep.

Using dividends to buy additional stock 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 **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see why it might be an interesting pick.

Earnings machine

Royal Bank reported a record $11.5 billion in net income for fiscal 2017. That’s almost $1 billion inprofit per month!

The performance was 10% better than the previous year, and the strong trend is likely to continue.

Royal Bank has a balanced revenue stream with solid personal and commercial banking, wealth management, capital markets and investor and treasury services divisions.

Interest rate effect

Rising interest rates could put some homeowners in a tight spot, but Royal Bank’s Canadian residential mortgage portfolio is capable of riding out a downturn in the housing market.

Overall, higher interest rates tend to be a net benefit for the banks, as they boost returns on funds that have to be set aside to cover deposits and often result in better spreads on the money they lend.

Dividend growth

Royal Bank has a strong track record of increasing its dividend with a compound annual dividend-growth rate of 7% over the past 10 years.

The current payout provides a yield of 3.4%.

Returns

Long-term shareholders have enjoyed some impressive returns. In fact, 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 Royal Bank will deliver the same results over the next two decades, but the stock remains an attractive pick to start a TFSA retirement fund, and the strategy of owning top dividend stocks and investing the distributions in new shares is a proven one.

Other top companies are also worth considering for buy-and-hold investors, and some of them are not household names.

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