2 Canadian Dividend Stocks for Retirees to Buy and Hold

Description

In Canada, banking stocks offer one of the best avenues for retirees to invest and build their nest egg. Operating in an oligopoly, the country's top lenders operate in an environment where competition isn't as stiff as you'd see south of the border.

From this position of strength, Canadian lenders regularly boost their dividends and reward investors who buy and hold their shares. Let's look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **National Bank of Canada** (TSX:NA) to see which of these two lenders provides a better value for your retirement portfolio in today's market.

TD Bank

For retirees, TD Bank stock is a solid pick for many reasons. First, it's the most diversified banks in Canada thanks to its aggressive growth in the U.S. The bank now runs more branches in the U.S. than it does in Canada, making it one of the top 10 lenders in the U.S.

This massive presence south of the border means that TD is well positioned to benefit from the world's largest economy, fueling more growth to its bottom line. In the first quarter, TD reported a record profit of $952 million from its U.S. retail business — a jump of 19% from a year earlier, demonstrating how its expansion in the U.S. is feeding into its bottom line.

The second reason that I like TD for retirees is that the lender has a solid history of growing dividends. Its dividends have grown about 11% on annualized basis in the past two decades, putting the lender among the top dividend payers in Canada.

And with a relatively safe payout ratio of between 40% and 50%, I don't see any reason why investors shouldn't continue growing payouts going forward.

Trading at $75.85 at the time of writing with an annual dividend yield of 3.53%, TD stock is close to the 52-week high and the timing may not be perfect to make an entry. That said, the lender is in a great position to continue with its earnings momentum, and investors will no doubt realize this when the bank reports its second-quarter earnings tomorrow.

National Bank of Canada

Being one of Canada's smaller banks doesn't mean that investors will get a bad deal. National Bank of Canada is the sixth of the big banks and has a much smaller market penetration. In recent years, National Bank has gained 65%, which is a much higher return compared to that of its larger peers such as **Bank of Nova Scotia** and **Canadian Imperial Bank of Commerce**.

In the first quarter, National Bank reported net income of $550 million, or $1.46 per share diluted, a jump of 11%, or 9% per diluted share, when compared to the same period a year ago. The lender benefited from the strong economy in the Canadian Province of Quebec that's enjoying historically low unemployment and more modest housing prices and debt levels compared with other provinces.

If you want to get a slightly higher dividend yield with full exposure to Canada, then National Bank is a better bet than other large lenders, which are investing heavily overseas. Trading at $63.20 at the time of writing, the lender currently yields 4.05% with a solid history of hiking its payout.

The bottom line

Canadian banks nicely fit in any buy-and-hold investing strategy where the objective is to earn steadily growing income and preserve the capital. For your retirement portfolio, I will strongly recommend some exposure to Canadian banking stocks. Both TD and National Bank are good candidates.

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