2 Top Canadian Dividend Stocks to Help You Retire in Comfort

Description

World travel, months at the cottage, or quiet days spent with a great book beside the fireplace are all activities Canadians dream of enjoying as part of a comfortable retirement.

Getting to this point might seem like a daunting challenge, but careful planning and a bit of financial discipline can help investors set aside the cash they need to enjoy financial freedom in the golden years.

One popular strategy involves owning top quality dividend-growth stocks inside a self-directed RRSP or TFSA and using the distributions to buy additional shares. Over time, the power of compounding can turn reasonably modest initial investments into a substantial retirement fund.

Let's take a look at two Canadian stocks that might be interesting picks today.

Royal Bank of Canada (TSX:RY)(NYSE:RY)

Royal Bank is Canada's largest financial institution by market capitalization with a valuation of close to $150 billion. The bank is an earnings machine, generating profits in the range of $1 billion per month.

Interest rates are on the rise, and that trend is expected to continue over the next few years. While higher rates might cool down mortgage lending, Royal Bank will also see net interest margins increase, and the overall impact on the bottom line should be positive.

When a company gets this big, investors might think growth would be a challenge, but Royal Bank expects to boost earnings by at least 7% per year over the medium term, and that should support ongoing dividend increases. The current payout provides an annualized yield of 3.7%.

A $10,000 investment in Royal Bank 20 years ago would be worth about $110,000 today with the dividends reinvested.

Fortis (TSX:FTS)(NYSE:FTS)

Fortis owns businesses that ensure people have electricity and natural gas to cook their food, heat their homes, and turn on the lights. This might not be as exciting as some of the social media or cannabis stocks, but investors looking to boost retirement savings should take notice.

Fortis gets more than 90% of its revenue from regulated assets, which means cash flow should be reliable and predictable. This is essential for supporting solid dividend growth, and Fortis is one of the top stocks in the market when it comes to that metric. In fact, Fortis has raised the payout for 44 straight years.

The company is working on a capital program of more than $15 billion and is evaluating a portfolio of organic growth opportunities. This should support ongoing dividend increases of at least 6% per year through 2022. At the time of writing, the distribution provides a yield of 4%.

Long-term investors have also done well with this stock. A $10,000 investment in Fortis two decades ago would be worth close to $90,000 today with the dividends reinvested.

The bottom line

Owning top-quality dividend-growth stocks and investing the distribution in new shares is one way Canadians can use their TFSA and RRSP to set aside some cash to fund a comfortable retirement.

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Date
2025/08/25
Date Created
2018/08/13
Author
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