Young Investors: 2 Reliable Canadian Dividend Stocks to Start Your TFSA Retirement Fund

Description

Millennial investors are facing a savings challenge that is quite different from the one their parents or grandparents faced at the same age.

In the past, a college or university grad could reasonably expect to find full-time work with good benefits right out of school. Today, internships followed by contract work are more common, and when a permanent position finally comes up, the retirement benefits can vary considerably. Defined-benefit plans (the ones with guaranteed payouts) are becoming rare and are often replaced by defined-contribution programs, which use the portfolio's returns to determine eventual retirement amounts.

Housing is another issue. Previous generations had an opportunity to purchase a home in the early parts of their careers, and the steep rise in property values over the past two decades has provided a nice retirement safety net. That might not work out for today's young professionals, especially in the larger cities where home prices are getting out of reach for many people.

One advantage that millennials do have that wasn't available to their parents at the same age is the Tax-Free Saving Account. Since its inception in 2009, the TFSA contribution room has increased to $57,500, providing investors ample room and opportunity to grow savings without having to pay tax on interest, dividends, or capital gains.

Let's take a look at two stocks that might be interesting picks to launch a self-directed TFSA retirement fund.

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

Royal Bank is Canada's largest financial institution by market capitalization and one of the biggest in the world. In the banking sector, size has its advantages, and Royal Bank continues to deliver strong results.

The company earned more than $3 billion in fiscal Q3 2018, posting double-digit growth over the same period last year. The bank's US$5 billion acquisition of California-based City National in late 2015 has proven to be a wise move, and investors could see additional expansion in the U.S. private and commercial banking sector in the coming years.

Royal Bank has a strong track record of dividend growth, which should continue in line with anticipated annual earnings per share increases of 7-10% over the medium term. The current payout provides a yield of 3.8%.

A $10,000 investment in Royal Bank 20 years ago would be worth more than $130,000 today with the dividends reinvested.

Fortis (TSX:FTS)(NYSE:FTS)

Fortis is a North American utility company with natural gas distribution, power generation, and electric transmission businesses located in Canada, the United States, and the Caribbean. Like Royal Bank, Fortis has made significant investments in the United States in recent years, including the US$4.5 billion purchase of Arizona-based UNS Energy and the US$11.3 billion takeover of ITC Holdings.

Fortis has a $15.1 billion capital program in place, and management says that should drive cash flow growth to support annual dividend increases of at least 6% through 2022. Fortis has increased the payout for 44 straight years, so the guidance should be solid. At the time of writing, the dividend provides a yield of 4%.

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

The bottom line

There is no guarantee that future returns in Royal Bank and Fortis will match past results, but buying top-quality dividend-growth stocks and investing the payouts in new shares is a proven formula for building wealth, and these companies should be attractive buy-and-hold picks. Young investors have time on their side and can leverage the power of compounding. With a bit of discipline and patience, there is an opportunity to put some serious cash away in a TFSA retirement portfolio.

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