2 Stocks to Own for 35 Years in Your RRSP

Description

Canadian savers are loading up RRSP accounts to help reduce 2018 taxable income, while setting aside cash to fund a comfortable retirement.

One popular strategy, especially among self-directed RRSP investors, involves buying reliable dividend-growth stocks and investing the distributions in new shares. When held in the RRSP, the distributions are not taxed, so the full value can be used to grow the fund. Investors only pay tax on RRSP holdings when the money is eventually withdrawn, and that is ideally done when you are in a lower marginal tax bracket.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

CN just reported solid results for Q4 and full year 2018. Adjusted net income for the year increased 7% to $4.06 billion. Adjusted diluted earnings per share increased 10%, and the company generated $2.5 billion in free cash flow, even after it spent $3.5 billion on capital projects.

For 2019, CN continues to invest in new locomotives, rail cars, and network upgrades to improve efficiency and ensure it can meet growing demand for its services. The capital program for this year is $3.9 billion.

CN just raised the dividend by 18% for 2019. The company has a compound annual dividend-growth rate of about 16% over the past two decades, making the company one of the best dividend stocks in the TSX Index on that metric.

The Canadian and U.S. economies continue to grow and CN serves an important role in the movement of raw materials and finished goods across the two countries. In fact, CN is the only rail carrier in North America with lines connecting three coasts.

Long-term investors have fared well with this stock. A $5,000 investment in CN 20 years ago would be worth more than $100,000 today with the dividends reinvested.

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

One way to get some of your bank fees back is to invest in the bank stocks. Royal Bank was the most profitable bank in Canada last year based on total earnings of $12.4 billion, representing a 9% gain over 2017. Diluted earnings per share increased 11%, and the company increased the dividend by 8%.

Going forward, Royal Bank expects the strong trend to continue. Earnings are forecast to grow 7-10% per year over the medium term, and that should support ongoing dividend increases in line with last year.

The company is investing significant funds to ensure it can compete in the digital-banking age, and the efforts appear to be working, as Royal Bank saw a big jump in the number of clients using its online services last year.

The stock isn't as cheap as it was in December but still appears attractive, given the solid outlook for earnings growth. Investors who buy today can pick up a yield of 4.7%.

A $5,000 investment in Royal Bank 20 years ago would be worth about $50,000 today with the dividends reinvested.

The bottom line

There is no guarantee CN and Royal Bank will deliver the same returns over the coming decades, but both companies are market leaders and should continue to deliver growing earnings and rising dividends for investors. The stocks appear reasonably priced today and should be solid picks for a self-directed RRSP portfolio.

Additional opportunities in the Canadian market are also worth considering right now.

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