RRSP Investors: 2 TSX Index Dividend Stars to Hold for 30 Years

Description

Canadians are scraping together their final RRSP contributions for the 2018 tax year, and many are placing the funds into a self-directed account.

Owning dividend-paying stocks is a popular use of the funds. Over time, if the distributions are invested in new share, investors can see the portfolio grow to become a substantial nest egg.

Let's take a look at two companies that might be interesting buy-and-hold picks for a dividend-focused RRSP portfolio right now.

Bank of Montreal (TSX:BMO)(NYSE:BMO)

Bank of Montreal might not get the same attention as its larger peers, but the stock deserves to be on your radar. The company has a balanced revenue stream that comes from personal and commercial banking, wealth management, and capital markets activities. The large U.S. division, which operates more than 500 branches, provides a good way to get exposure to the U.S. economy, and when the American dollar rises against the loonie, the U.S.-based earnings can deliver a nice boost to the bottom line.

Bank of Montreal's exposure to the Canadian housing market is relatively small compared to some of the other Canadian banks. A meltdown in house prices isn't expected, but the company shouldn't be hit very badly in the event the market goes through an ugly downturn.

The company has paid a dividend every year since 1829. At the time of writing, the distribution offers a yield of 4%.

Fortis (TSX:FTS)(NYSE:FTS)

Fortis spent more than US$15 billion in recent years on two large acquisitions in the United States. The purchases served to provide balanced geographic exposure for the portfolio of gas distribution, power generation, and electric transmission businesses.

Overall, more than half of the company’s revenue comes from the U.S. businesses and at least 90% of total revenue is generated by assets operating in regulated sectors. As a result, cash flow tends to be stable and predictable, and that is great for investors who rely on dividends.

Aside from acquisitions, Fortis also generates growth organically through its capital program. The company is spending about $3.5 billion per year over the next five years, and that should boost the rate base enough to cover annual average dividend hikes of about 6%.

The payout has increased for 45 straight years, so there is good reason to have confidence in the projections. The existing payout provides a yield of 3.9%.

Is one more attractive?

Two months ago, I would have suggested making Bank of Montreal the first choice, but it has enjoyed a nice bounce off the December low and, while still reasonably priced, isn’t heavily oversold today. As such, I would probably split a new investment between the two stocks.

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