How Canadian Couples Can Build a $1,000,000 Retirement Fund

Description

Retirement might be 20 or 30 years away, but Canadians know the earlier they start setting cash aside for later in life, the easier it is to hit their retirement goals.

In fact, young couples that are able to set aside some money on a regular basis might even be able to grow their self-directed retirement fund to the point where they can quit work a few years earlier than expected. It takes some discipline and patience, but a portfolio holding quality dividend stocks could turn $100,000 in savings into a cool million over the course of two decades.

That means a 35 year-old couple with $50,000 each in their RRSP or TFSA could potentially have enough set aside by 55 to start winding down their work schedule or even retire, if they own their house.

Let's take a look at two Canadian stocks that might be interesting picks for a TFSA or RRSP portfolio.

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

Royal Bank reported solid results for fiscal Q1 2019. The company generated net income of $3.2 billion, representing a 5% year-over-year gain. Diluted earnings per share increased 7% to $2.15. Return on equity remains high at 16.7%, and the bank's capital position is healthy with a CET1 ratio of 11.4%.

Management anticipates earnings will grow at 7-10% over the medium term and just increased the quarterly dividend by 4% to $1.02 per share. That's good for a yield of nearly 4%.

Royal Bank is investing heavily in its digital banking platforms, and customers are responding. Active mobile users increased 17% to four million. Digital adoption is now above 50%.

Long-term investors have enjoyed strong gains with this stock. A $10,000 investment in Royal Bank 20 years ago would be worth more than $115,000 today with the dividends reinvested.

Fortis (TSX:FTS)(NYSE:FTS)

Fortis is a North American utility company with businesses that include natural gas distribution, power generation, and electric transmission assets. The majority of the company's revenue comes from regulated operations, which means cash flow tends to be both predictable and reliable.

Growth comes through a combination of acquisitions and organic development projects. The company bought two businesses in the United States in recent years for US$4.5 and US$11.3 billion. The integration went well, and now Fortis is working through a $17 billion five-year capital program.

Management expects cash flow to increase enough to support average annual dividend increases of 6% through 2023. Beyond that timeframe, the company has additional organic development opportunities and potential additional acquisitions. The dividend provides a yield of 3.8%.

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

The bottom line

Royal Bank and Fortis have strong track records of earnings and dividend growth and should be solid buy-and-hold picks for a retirement fund. A $100,000 portfolio invested in these stocks just two decades ago would be worth more than $1,000,000 today, and similar returns have come from a number of other top Canadian companies.

There are no guarantees the performance will be repeated, but the strategy of owning top dividend stocks and investing the distributions in new shares is a proven one.

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