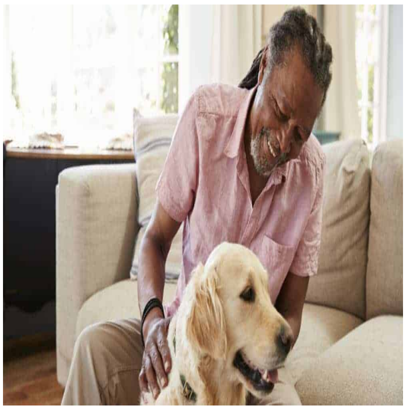

Retirement Investors: 3 Top TSX Index Stocks Yielding 5% With Strong Upside Potential

Description

Canadian investors are searching for top stocks to add to their RRSP and TFSA portfolios as part of their retirement-planning process.

The strategy makes sense, especially when the shares are held for decades and the dividends are used to buy new stock. This takes advantage of a powerful compounding process that can turn modest initial holdings into a significant nest egg down the road.

Let's take a look at three Canadian stocks that pay attractive dividends and might be getting oversold after the recent pullback.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS)

Investors might view Bank of Nova Scotia's big bet on Latin America as being risky. The region has certainly gone through ups and downs, and some countries are absolute economic disasters. However, Bank of Nova Scotia has focused its investments on Mexico, Peru, Chile, and Colombia. The four countries are part of the Pacific Alliance trade bloc that enables capital, goods, and labour to move freely among the member states.

The combined population is more than 225 million, and as the middle class expands, demand for a multitude of banking products and services should increase, both from consumers as well as businesses.

The international operations already account for about 30% of Bank of Nova Scotia's total profits, and that should increase in the coming years as loans and deposits continue to increase.

The stock is down to nearly $70 per share. At this price, investors can pick up a 5% yield while theyride out the current turbulence. It wouldn't be a surprise to see the stock move back to $80 in the next12 months.

Power Financial (TSX:PWF)

Power Financial is a holding company with interests in a basket of Canadian insurance and wealth management businesses. It also has a stake in a European holding company that owns shares of several of Europe's largest multinational firms.

The assets are performing well, and based on the board's recent decisions, it appears that trend is expected to continue. Power Financial just spent $1.65 billion to buy back shares and raised the dividend by 5%. The stock had a nice run from $25 per share in December to above $33 but has now pulled back to close to $30. Investors who buy today can pick up a 6% yield.

Power Financial is an interesting pick for investors who are seeking a non-bank financial stock for their portfolios.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ)

CNRL is giant in the Canadian oil patch. The company's strong balance sheet gives it the financial capacity to make large acquisitions when the energy sector is struggling. It then capitalizes on the cheap acquisitions to generate attractive free cash flow when commodity prices recover.

CNRL is particularly attractive due to its diverse resource base and the fact that it tends to have a 100% ownership in most of its assets. This gives the company the flexibility to move capital quickly to take advantage of shifts in energy prices.

The board raised the dividend by 12% for 2019, and CNRL is buying back shares while also using excess free cash flow to pay down debt. The stock rallied 40% from the December low of $30 to $42 a month ago. Today, investors can scoop it up for $35 and secure a solid 4.3% dividend yield.

The bottom line

Bank of Nova Scotia, Power Financial, and CNRL are all top-quality companies with strong businesses that should deliver attractive long-term returns. An equal investment in the three stocks today would provide a 5% yield and a shot at some nice upside in the stock prices when sentiment improves.

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