2 Top Dividend Stocks for Self-Directed RRSP Investors

Description

Canadians are using self-directed RRSP accounts to put cash aside for their golden years.

The strategy makes sense for those in higher income brackets and for people who have a tough time leaving their savings alone.

The RRSP contributions can be used to reduce taxable income today. That puts more money in your pocket now, and when the time comes to spend the cash, the withdrawals will ideally be taxed at a lower rate.

The money can be pulled out at any time, but the withholding tax tends to give investors a greater incentive to leave the money in the RRSP until retirement.

The best stocks to buy are often those that pay reliable dividends. The distributions can be used to purchase additional shares, setting up a compounding process that can turn small original investments into a large retirement fund over 20 or 30 years.

Let's take a look at two stocks that might be interesting picks to start your self-directed RRSP portfolio.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is Canada's oldest bank and has the longest track record of consistent dividend payouts. The company began giving shareholders a piece of the profits in 1829 and has paid a dividend every year since that time.

The bank has a nice revenue mix coming from both Canada and the United States and across a number of banking segments. Bank of Montreal is known for having a strong commercial banking division in addition to its wealth management, capital markets, and personal banking operations.

Bank of Montreal's relative housing exposure is lower than some of its peers. This should mean the bank is less likely to take a hit in the event the Canadian housing market runs into serious trouble.

The stock trades at a reasonable 11 times trailing earnings, and the dividend provides a solid yield of 4.25%.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a North American utility with $50 billion in assets primarily located in the United States in Canada.

The businesses mostly operate in regulated sectors, meaning revenue and cash flow tend to be predictable and reliable.

Fortis has grown through a combination of acquisitions and organic development projects. The current capital program is expected to drive the rate base up enough to support average annual dividend increases of 6% through 2023.

The company has raised the payout for 45 straight years, and the current distribution provides a yield of 3.4%.

The bottom line

Bank of Montreal and Fortis have strong histories of delivering reliable dividends. The companies give investors good access to the United States through Canadian stocks and should be solid buy-and-hold picks for a balanced RRSP portfolio.

If you only buy one, Bank of Montreal appears somewhat undervalued today, so I would probably make the bank the first choice.

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