RRSP Investors: 2 Top Canadian Stocks to Own for 2 Decades

Description

Canadians are using their self-directed RRSP accounts to create portfolios of top-quality stocks.

The RRSP has been around for a long time and offers investors some attractive benefits. Contributions can be used to reduce taxable income today, and the interest, dividends, or capital gains generated on the money can be reinvested tax-free.

When the time comes to pull the funds, investors pay tax on the amount according to their marginal tax rate at that moment. Ideally, this will be lower than the rate they were at when they made the original contributions.

Removing RRSP funds before retirement is possible, but a withholding tax is applied, so it is best to keep the money in the RRSP for the long haul.

Let's take a look at two top Canadian stocks that should be attractive picks to buy today and hold for 20 years.

Royal Bank

Royal Bank of Canada (TSX:RY)(NYSE:RY) has a market capitalization of $150 billion, making it the largest company on the TSX Index.

The bank has weathered every major economic crisis over the past 150 years and is positioned well to continue the strong track record. It has a balanced revenue stream coming from personal and commercial banking, wealth management, capital markets, investor and treasury services, and insurance operations.

Royal Bank knows it has to adjust to changing trends in the industry and is investing heavily to build its digital banking platforms. Clients are using the mobile applications at an increasing rate, and this should help Royal Bank remain competitive, as non-bank entrants move into the sector.

The bank is very profitable, reporting fiscal 2018 earnings of $12.4 billion. The 2019 results are on track to beat that amount, despite a challenging environment for the industry.

Royal Bank has a long history of dividend growth, and that is expected to continue in line with anticipated earnings-per-share gains of 7-10% per year over the medium term. The current payout provides a yield of 4%.

A $10,000 investment in Royal Bank 20 years ago would be worth more than $130,000 today with the dividends reinvested.

CN

Canadian National Railway (TSX:CNR)(NYSE:CNI) is investing $3.9 billion in 2019 on new locomotives, additional rail cars, network upgrades, and new technology to drive more efficiency into its operations.

The company is a giant in the North American rail industry with routes that connect to ports on both the Atlantic and Pacific coasts of Canada, as well as the Gulf of Mexico in the United States.

As the Canadian and American economies grow, CN gets more business for its broad range of transport segments. The company carries everything from coal and cars to lumber, grain, finished products, and crude oil. A good chunk of the revenue comes from the U.S. operations, providing a hedge against potential slowdowns in Canada. When one business segment hits a rough quarter, the others normally pick up the slack.

CN generates healthy profits and significant free cash flow. The board uses the funds to buy back shares and normally gives investors a nice raise every year. The compound annual dividend-growth rate over the past 20 years is about 16%.

Investors who bought $10,000 in CN stock two decades ago would have more than $200,000 today with the dividends reinvested.

The bottom line

Royal Bank and CN are industry leaders and should continue to be solid buy-and-hold picks to help Canadians build wealth inside their RRSP accounts.

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2. NYSE:RY (Royal Bank of Canada)
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