



## Retire Rich: How to Build a \$1 Million RRSP

### Description

Retiring rich means different things to different people, but most would argue that a \$1 million [RRSP](#) is adequate to enjoy life in the golden years.

Getting to that point might seem impossible, but it is actually quite achievable for the average couple who manages to set aside a steady amount of money through their working lives.

The great thing about the RRSP is that the contributions can be used to reduce taxable income in the year they are applied. The tax savings can go a long way when you are younger and if retirement planning is done carefully, the funds will be taxed at a lower rate when withdrawn than they would have been at the time of the contribution.

In addition, the investments can take advantage of the compounding process to grow over the years, turning relatively small initial contributions into a large retirement fund.

### Which stocks are good picks for your RRSP?

The best companies tend to be market leaders with strong competitive positions and long track records of [dividend growth](#) supported by higher profits.

Let's take a look at **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) to see why it might be a good pick to get you started.

### Earnings

Royal Bank earned \$12.4 billion in net income in fiscal 2018. That's right; the Canadian financial giant, which has a market capitalization of \$155 billion and is deemed too big to fail, pulls in a cool billion in profit every month.

The secret to the bank's success lies in its diversified business units. Royal Bank is a strong player in

personal and commercial banking, wealth management, insurance, capital markets, and investor and treasury services.

It has operations around the world and spent US\$5 billion about four years ago to boost its private banking presence in the United States when it purchased California-based City National, also known as the banker to Hollywood's stars.

Royal Bank knows it has to invest in digital products and solutions to remain competitive in the changing world of digital banking. Young customers prefer to use mobile apps, and getting loans approved quickly for home and businesses owners helps keep customers from leaving.

Royal Bank has the financial depth to make the required investments and is already seeing the benefits through rising adoption of its digital services by its clients.

## Dividends

The bank anticipates earnings will grow at 7-10% per year on a per-share basis. That should support ongoing dividend increases in the same range. The current dividend provides a yield of 3.9%.

## Returns

Buy-and-hold investors have done well with the stock. A \$70,000 investment in Royal Bank 20 years ago would be worth more than \$1 million today with the dividends reinvested.

## The bottom line

A Canadian couple could reasonably each have \$35,000 in RRSP investments and see the combined funds grow to \$1 million in a couple of decades.

There is no guarantee Royal Bank will generate the same results in the next 20 years, but the stock remains a top pick to anchor a self-directed RRSP portfolio, and the strategy of owning quality dividend-growth names is a proven one.

There are several stocks in the TSX Index that have generated comparable or even stronger returns over the same timeframe.

### CATEGORY

1. Bank Stocks
2. Investing

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1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

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**Date**

2025/08/26

**Date Created**

2019/09/27

**Author**

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