RRSP Dividend Investors: 2 Top Stocks to Buy Today and Hold for Decades

Description

Owning top dividend stocks in a buy-and-hold RRSP portfolio is a proven strategy for building retirement wealth.

Companies that have long histories of dividend growth supported by rising revenue and earnings can help investors create self-directed pension funds to complement their company pensions, CPP, and OAS payments.

The secret to building a significant savings fund lies in the power of compounding. Investors who take the dividends and use them to buy additional shares can harness a snowball effect to turn a small initial portfolio into a large cash reserve for the golden years.

Let's take a look at two TSX Index stocks that might be interesting picks today for your self-directed RRSP.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is often overlooked in favour of its three larger Canadian peers, but the bank has some interesting characteristics that deserve a closer look today.

Bank of Montreal has a balanced revenue stream coming from personal and commercial banking operations, capital markets activities, and wealth management.

All of the Canadian banks rely heavily on the domestic housing market to fuel profits, but Bank of Montreal's mortgage portfolio is smaller than some of its peers on a relative basis. This makes it less susceptible to a major downturn in house prices.

On the international side, Bank of Montreal has built a substantial U.S. presence since its first major acquisition in the American market in the early 1980s. BMO Harris Bank now operates about 500 branches focused on retail and commercial clients mostly located in the mid-western states.

The U.S. business provides a nice balance to the Canadian group and gives investors good exposure to the U.S. economy through a Canadian bank.

BMO is well capitalized with a CET1 ratio of 11.4%. The current quarterly dividend of $1.03 per share is up 7% in the past year and provides a yield of 4.25%.

Bank of Montreal has paid a dividend every year since 1829, and investors should see the strong trend continue for decades.

The stock trades at a reasonable, if not cheap, 10.25 times earnings.

CN

Canadian National Railway (TSX:CNR)(NYSE:CNI) is an integral part of the efficient workings of the Canadian and U.S. economies. The company transports everything from raw materials to grains, lumber, crude oil, cars, and finished goods.

CN is the only rail operator in North America with tracks connecting to ports on three coasts. This is a strategic competitive advantage that should endure, as getting new tracks built along the same routes is nearly impossible.

The company spends the money required to upgrade the network and add capacity to meet growing demand for its services. For example, CN is spending $3.9 billion in 2019 on new locomotives, rail cars, track upgrades, hub improvements and digital solutions to make the entire company operate in a more efficient manner.

The capital program is significant, but CN is a cash machine, generating ample profits to fund the investments in the company while also paying out dividends and buying back stock.

CN’s board has raised the dividend by a compound annual rate of about 16% over the past 20 years.

The bottom line

Bank of Montreal and CN are top-quality companies with reliable dividends that should continue to grow for decades. If you are searching for anchor positions to put in a buy-and-hold RRSP portfolio, these stocks deserve to be on your radar.

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Date
2025/07/20
Date Created
2019/10/17
Author
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