RRSP Alert: 2 Top Dividend Stocks to Start Your Self-Directed Pension Fund

Description

Canadian savers are using the Registered Retirement Savings Plan (RRSP) to set cash aside for the golden years.

The strategy is a wise one, as the contributions can be used to reduce taxable income today and invested to grow tax-free until the time comes to spend the money.

With a bit of careful planning, you should be in a lower marginal tax bracket when you eventually remove the funds from the RRSP. In addition, the tax dollars you save today will buy more now than they will in 20 or 30 years.

One popular option for the funds is to buy quality dividend stocks and invest the distributions in new shares. This can slowly build the size of the retirement fund from a small base to a substantial portfolio.

Let's take a look at two top dividend stocks that appear attractive today.

Suncor

Suncor Energy (TSX:SU)(NYSE:SU) might not be the first name that comes up when pundits discuss top dividend stocks, but the company has a great track record of dividend growth and recent increases have been significant. In fact, Suncor raised the payout by nearly 17% in 2019 and has hiked the distribution for 17 straight years.

The business is somewhat unique in the Canadian energy sector. Suncor's refining and retail divisions provide a revenue stream that helps offset any weakness in the production operations when oil prices slump.

Suncor's strong balance sheet and sheer size give it the firepower to buy distressed assets during downturns and then capitalize on the added production and resource base when the oil market recovers.

Getting to international markets remains a challenge for Canadian producers, but Suncor is able to secure WTI or Brent pricing for the bulk of its production due to its favourable access to existing pipelines. The refined products sell at global rates, so it also has an advantage through the downstream business units.

The stock price is up to $42 from the 2019 low around $37 but still sits well off the $55 high it hit in 2018. Commodity markets go through cycles, so it is normally best to start new positions during challenging times.

Suncor's dividend should continue to grow at a healthy clip. Investors who buy now can pick up a 4% yield and get paid nicely to wait for the next rally in the oil market.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is based in eastern Canada but has $52 billion in assets spread out across Canada, the United States, and the Caribbean.

The power generation, natural gas distribution, and electric transmission utility businesses are mostly regulated, meaning Fortis has a revenue stream that should be predictable and reliable.

Growth comes through a combination of acquisitions and organic projects. The current $18.3 billion capital program is expected to boost the rate base enough over the next five years to support average annual dividend hikes of 6%. The board has raised the payout for 46 straight years, so investors should feel comfortable with the guidance.

Interest rates are falling in the United States and should remain flat or decline in Canada in the next couple of years. A low-rate environment is good for utilities, as it reduces borrowing costs to fund projects and makes the dividends more competitive with fixed-income alternatives.

The stock isn't cheap today, but it serves as a good defensive holding for your portfolio. The dividend currently provides a yield of 3.6%.

The bottom line

Suncor and Fortis should be solid buy-and-hold picks for a dividend-focused RRSP.

If you only buy one and don't mind riding out some volatility, Suncor appears oversold today and should provide better dividend growth over the medium term.

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