RRSP Investor Alert: $10,000 Invested in RBC (TSX:RY) Stock 20 Years ago Would Be Worth This Much Today

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) stock has been a tremendous wealth creator over the past two decades, generating an average compound annual growth rate (CAGR) of nearly 14% annually, such that a $10,000 Registered Retirement Savings Plan (RRSP) deposit invested in RBC stock and held from January 2000 to date could have accumulated into a substantial wealth position.

Royal Bank is Canada's largest chartered bank and one of the top 15 global banks by market capitalization, serving 17 million clients across several geographical markets.

The bank maintains a strong capital position that allows it to consolidate its market leader position in Canada while expanding its clientele base across the United States and other advanced global markets, and its operational efficiency remains the envy of many close competitors.

A $10,000 investment in RBC stock in February of 2000 that has been held the entire time, and with all dividends reinvested (ideally using the bank's dividend-reinvestment facility), without any re-balancing, would have grown more than 15-fold to a staggering $153,200 today, even after a 25% drawdown during the 2008-2009 global financial crisis.

The power of dividend-growth investing and long-term-hold strategy

Shares in Royal Bank have demonstrated the immense power of a combined dividend-growth investing strategy, recently covered here, and a long-term buy-and-hold strategy over the past two decades.

Capital gains alone could have increased the position size to $74,000, but a consistent reinvestment of growing dividends over 20 years has contributed over $79,000 to the return (more than the price return).

The bank's quarterly dividend was around $0.135 per share in year 2000, and it has grown over the years to $1.05 per share today, and management could keep growing it further over the next decade.

Adjusted for the two stock splits in October 2000 and on April 6, 2006, the cost per share in 2000 falls to around $7.06, and the yield on cost on the current quarterly dividend now stands at an unbelievable 59.5% per year!

Such ultra-high annual yields are rare on a blue-chip ticker, but they are possible on such an outperforming dividend-growth play.

Should you Buy RBC shares today?

When it comes to Canada's largest bank, there's never a bad time to be buying the blue chip if one intends to hold it for a long time in a core portfolio.

The bank's business will continue to grow with the economy and with an increasing Canadian population that's benefiting from immigration, while its international presence in key global markets will continue bringing in significant financing, trade, and investment deals.

Management expects to grow the bank's bottom line by 7% annually in the near term, while targeting a strong +16% return on equity and maintaining a 40-50% dividend payout rate on the bank's growing earnings.

Royal Bank's dividend has increased by an average 7% CAGR between 2009 and 2019. If investments in technology continue lowering its operating costs, as lending portfolios and other business lines grow, the dividend could keep growing with earnings.

While some analysts may shout loud about the recent increases in provisions for credit losses to 27 basis points during the fiscal fourth quarter of last year, it's important to note that these provisions remain much lower than the actual historical credit losses at 33 basis points, meaning the bank is actually forecasting a much lower default rate in the future than experienced in prior years.

Maybe it's time to mute the naysayers and start building your wealth with this chartered bank as your core holding for a care-free retirement and hold the position for as long as possible. The nearly 4% yield on this Dividend Aristocrat is as juicy as it comes; it may go away soon when the market sentiment turns bullish again on the financial sector.

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