RRSP Wealth Creator: How Top Canadian Dividend Stocks Help Investors Retire Rich

Description

The deadline for RRSP contributions for the 2019 tax year is almost here, and that has Canadian savers thinking about how soon they might be able to quit work and start enjoying the golden years.

Retiring rich might feel like an unrealizable dream, but many middle-class Canadians who started saving early and made RRSP contributions through their careers are sitting on small fortunes for retirement to go with their other pension income.

One strategy for building RRSP wealth that has proven to be successful over the long run is to own quality dividend stocks and use the distributions to buy more shares. This harnesses a powerful compounding process that can slowly turn a reasonably modest initial investment into a large portfolio over time.

Trying to time the market is difficult, so it is generally recommended to make steady investments in top stocks to take advantage of dollar-cost averaging.

Let’s take a look at two top **TSX Index** stocks that might be interesting picks to start a balanced RRSP dividend portfolio.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a giant in the Canadian banking industry with a market capitalization of more than $135 billion.

The bank is often cited as the safest pick among the large Canadian banks due to its focus on retail banking activities. This includes the personal banking and commercial banking segments that give loans and collect deposits. TD’s wealth management operations are also strong, and the company continues to grow the division. TD purchased Greystone Capital in late 2018, adding $35 billion in assets under management.

TD's U.S. retail banking business stretches from Maine right down the east coast to Florida and actually has more branches than the Canadian group. The American operations provide a nice revenue balance and offer a hedge against any potential trouble in the home market.

TD has raised the dividend by a compound annual rate of about 11% over the past two decades. The current payout provides a yield of 3.9%.

A $10,000 investment in TD just 25 years ago would be worth more than $330,000 today with the dividends reinvested.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) fell out of favour with investors in recent years amid concerns about the debt load and the use of drop-down subsidiaries to shift assets and raise capital. As a result, the share price fell from $65 in April 2015 to $38 in April 2018.

Management listened to the market and implemented a restructuring program that saw Enbridge bring four subsidiaries under the umbrella of the parent company. This streamlined operations and made it much easier for analysts to evaluate the stock as a potential investment. Enbridge also found buyers for roughly $8 billion in non-core assets.

The balance sheet is in better shape, and Enbridge can fund its exiting capital program through internal sources. Investors who acquired shares below $40 are now sitting on a 40% gain.

Enbridge is targeting distributable cash flow growth of 5-7% per year over the medium term. This should support ongoing dividend increases in the same range. The existing dividend provides a yield of 5.8%.

A $10,000 investment in Enbridge 25 years ago would be worth more than $380,000 today with the dividends reinvested.

The bottom line

There is no guarantee TD and Enbridge will deliver the same returns over the next 25 years, but the two companies remain strong candidates for a dividend-focused RRSP fund.

The TSX Index is home to several industry leaders that have proven track records of dividend growth and capital appreciation.

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