Want to Retire Early? 2 Top Stock Picks for TFSA and RRSP Investors

Description

The 2020 market crash and pandemic lockdowns impacted Canadian investors in a number of ways.

The plunge in the stock market in March put a deep, but fortunately brief dent in many pension portfolios. Investors who avoided selling during the worst of the crash probably haven't witnessed much of a change to the value of their pension savings compared to where they began the year.

Those who took advantage to put some dry powder to work in March and April might even be up a bit.

The lockdowns, job uncertainty, and health threats experienced in recent months also forced many of us to reflect on what is really important in our lives. Time with family and a desire to check out with no regrets might top the list.

As a result, working toward an early retirement sounds pretty good today.

Top stocks for a TFSA or RRSP

Government bonds and GICs aren't going to cut it with rates being so low. The best way to generate decent returns likely lies in holding quality dividend stocks and using distributions to buy new shares.

Over the course of 20 years or so, the compounding process can turn modest investments into a substantial retirement fund. The goal is to have enough cash in TFSA and RRSP accounts to cover living costs from the time you take early retirement until age 65 when CPP, OAS, and potentially a company pension can take over.

Each person's goal and financial situation is different. Some people might be able to target freedom at 50 or 55. Others see 60 as a more reasonable and attractive retirement age.

Let's take a look at two top Canadian dividend stocks that appear reasonably priced right now and should be attractive picks for a personal pension portfolio.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) trades near $62 at the time of writing and provides a 5% dividend yield. The stock topped $75 in February before the pandemic crash, so there is decent upside as the economy recovers.

TD and it peers will see profits fall in 2020. However, the bank has a strong capital position, remains very profitable and should have no trouble maintaining the dividend.

Investors who buy TD on a correction have historically reaped big long-term returns.

Enbridge

Most stocks connected to the oil and gas sectors remain out of favour. Part of this is due to the crash in oil demand caused by pandemic lockdowns. Negative views on fossil fuels are another aspect of the story.

Enbridge (TSX:ENB)(NYSE:ENB) doesn't produce oil or gas. It simply charges a fee for moving the commodities from producers to their end customers. The oil pipelines generally run near capacity, and that situation should normalize as the economy recovers. Whether or not the world has hit peak oil demand is up for debate. The need for oil certainly isn't going to disappear in the near term.

Enbridge's natural gas utility businesses and renewable energy assets continue to perform well in the current environment and provide a nice revenue hedge.

The stock trades near $43 per share and offers a 7.5% dividend yield. Steady increases in distributable cash flow in the coming years should support higher dividend payments. The stock appears oversold today and could easily be back above $55 in the next two years.

The bottom line

TD and Enbridge are leaders in their respective markets and have long track records of delivering strong returns for buy-and-hold investors. If you are searching for attractive picks for a self-directed TFSA or RRSP, these stocks deserve to be on your radar right now.

Patience and discipline is required to hit the goal, but early retirement is still within reach.

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2. NYSE:TD (The Toronto-Dominion Bank)
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Date
2025/07/01
Date Created
2020/08/26
Author
aswalker