



How to Turn a \$10,000 RRSP Into \$475,000 in 25 Years

Description

The RRSP deadline is March 1, 2021. Investors with some savings in their RRSP accounts want to know where they can get the best returns without taking on too much risk.

RRSP investing strategy

A popular and proven RRSP investing strategy involves buying top dividend stocks and using the distributions to acquire new shares. This takes advantage of the power of compounding to build a large stock portfolio. The process requires time, but a Canadian investor can turn a relatively small initial RRSP fund into a substantial amount for retirement over the course of two or three decades.

The best stocks to buy tend to be industry leaders with strong track records of dividend growth. Look for companies that enjoy strong and defensible competitive positions. Steady revenue growth is key to supporting higher profits and growing dividends.

Why Canadian National Railway deserves to be a top pick

CN ([TSX:CNR](#))([NYSE:CNI](#)) is a leader in the North American transportation industry with integrated intermodal, trucking, freight forwarding, warehousing, and distribution services.

The rail network of 19,600 route miles runs across Canada from the Pacific to the Atlantic and through the heart of the United States to the Gulf Coast. This access to three essential ports gives CN a unique advantage in securing business with domestic and international customers.

The company is effectively the backbone of the U.S. and Canadian economies. CN transports grain, lumber, car parts, consumer goods, coal, [crude oil](#), and fertilizers. The balanced revenue stream across the various segments provides relative cash flow stability. When one group has a rough quarter or a challenging year, others normally pick up the slack.

CN set a new record for grain shipments in January. Stay-at-home projects mean lumber companies

can't currently keep up with demand, and oil-by-rail shipments could jump significantly in the next few years after the cancellation of the Keystone XL pipeline project. This all bodes well for CN and its shareholders.

The company plans to invest \$3 billion in capital projects in 2021, according to the [Q4 2020 earnings](#) release. Despite the large capital program CN still expects to generate at least \$3 billion in free cash flow. That's great news for CN investors.

The board raised the dividend by 7% for 2021. CN also intends to buy back up to 14 million common shares over the next 12 months. The company has one of the best [dividend-growth](#) track records on the **TSX Index** over the past 25 years.

Long-term owners of the stock have enjoyed fantastic returns. A \$10,000 investment in CN when it went public in the mid-1990s would be worth about \$475,000 today with the dividends reinvested.

The bottom line on RRSP investing

CN is a top RRSP pick, and the stock should deliver solid returns for buy-and-hold investors. The business grows in step with U.S. and Canadian economic expansion, and the next few years should be very strong for the company, as the post-pandemic recovery takes hold in both North America and across the globe.

It takes discipline and patience, but the strategy of buying top dividend-growth stocks and using the distributions to acquire new shares delivers results. Some RRSP investors have become wealthy over the past few decades by harnessing the power of compounding.

CATEGORY

1. Dividend Stocks
2. Investing

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