RRSP Wealth: How 2 Boring Stocks Turned $20,000 Into $300,000 in 20 Years

Description

Canadian savers are looking for top stocks to add to their self-directed RRSP accounts. A popular strategy involves buying quality dividend stocks and using the distributions to acquire more shares.

default watermark

The power of compounding in RRSP portfolios

Buy-and-hold RRSP investors can turn small initial investments into large savings for retirement by harnessing the power of compounding. Dividends paid from stocks are used to buy new shares. The process is slow at the start, but a snowball effect eventually kicks in, as each new share grows the size of the distribution payouts that, in turn, can be used to buy even more stock.

When the compounding effect combines with rising dividends and higher stock prices, the impact can be significant for RRSP investors.

The best stocks to buy tend to be industry leaders with long track records of dividend growth. Let's take a look at **Enbridge** (TSX:ENB)(NYSE:ENB) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI) to see how the strategy works and why they might be good RRSP picks.

Enbridge

Enbridge is major player in the Canadian and U.S. energy infrastructure industry. The company transports roughly 25% of all the oil produced in the two countries. Enbridge's natural gas storage, transmission, and distribution businesses move 20% of the gas used in the United States and serve millions of businesses and households in Canada.

In addition, Enbridge has a growing renewables business that includes solar, wind, and geothermal assets.

The stock took a hit last year when oil demand dropped due to air-travel restrictions and work-from-home orders. Enbridge transports the crude oil that refineries use to make jet fuel and gasoline. The second half of 2021 should see a rebound air travel as restrictions ease. At the same time, commuters could be back in the office in large numbers beginning in the fall.

The International Energy Agency (IEA) expects global gasoline demand to essentially recover to 2019 levels by the end of this year.

Enbridge raised the dividend for the 26th straight year, despite the tough market conditions. Ongoing dividend increases should be in line with the anticipated 5-7% growth in annual distributable cash flow.

A $10,000 investment in Enbridge 20 years ago would be worth about $100,000 today with the dividends reinvested.

CN

CN operates nearly 20,000 route miles of railway tracks that cross Canada and run right through the heart of the United States. The company is an essential part of the efficient functioning of the Canadian and U.S. economies and benefits during times of economic expansion.

CN generates significant free cash flow. This enables the firm to invest billions of dollars each year on new locomotives, rail cars, and network upgrades. Despite the large capital outlays, the company has cash left over to boost the dividend and repurchase shares.

default watermark

The stock is a great buy-and-hold pick. A $10,000 investment in CN just 20 years ago would be worth more than $200,000 today with the dividends reinvested.

The bottom line on RRSP investing

While Enbridge and CN might not be the most exciting businesses, they have helped RRSP investors build substantial portfolios for retirement and should continue to be anchor picks for a balanced portfolio.

The strategy of buying top dividend stocks and using the distributions to acquire new shares is a proven one for creating pension wealth. A number of top TSX stocks still appear attractively priced for RRSP investors in this market.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/09/09
Date Created
2021/04/20
Author
aswalker

default watermark

default watermark