RRSP Investors: 2 Dividend Stocks for Growing Your Cash Reserve

Description

Almost everyone in the world would love to have a sizeable cash reserve, but as Canadian investors, where would you *prefer* to have it: in a TFSA or an RRSP? Most investors are likely to answer "a TFSA," and it's easy to see why. Your TFSA cash reserve *is* at your disposal, whereas you have to wait years or decades before you can access your RRSP cash reserve, and that's not the worst of it.

If you leave a substantial amount of cash in your RRSP as cash, inflation will erode away its financial "strength" over the years. But if you are open to investing it, a cash reserve in an RRSP can give you more options. You won't have to wait for your salary to come in so you can divert part of it to the RRSP and make an investment, and you'll be able to make timely trades.

There are several stocks that can help you build and grow a cash reserve in your RRSP, but relatively few can be relied upon for steady payouts for decades.

A senior care company

Seniors make up about 18% of the Canadian population, and the number is going to slowly and gradually increase. This makes senior care companies like **Extendicare** (TSX:EXE) a reasonably evergreen business. The company is nowhere near its valuation or financial prime or even its 2011 numbers, but it has been growing its revenue quite steadily for the last seven years.

Its healthy financials are reflected in a healthy payout ratio, and the "discounted" valuation is partly responsible for the generous 5.8% yield. That's enough to help you generate $100-a-month dividend income with just $21,000 invested in the company.

The NOI Extendicare generates spread out around five business segments, but 61% of the NOI comes from long-term-care facilities.

A mortgage company

The housing industry in Canada is booming, and mortgage companies like **First National** (TSX:FN) are enjoying their fair share of the "action." As the largest non-bank mortgage lender in the country, First National is both significantly exposed to the housing market but also relatively more stable compared to other non-bank lenders. And it offers more than just a juicy 5.7% yield.

The share price of First National has grown about 75% in the last 12 months. And even though it's unsteady and "choppy," First National's 10-year CAGR of almost 20% is just as impressive as its generous yield. The yield is enough to help you earn a $100/month dividend income with only about $22,000 invested in the company.

If it keeps growing at the same pace, the company won't just help you create a cash pile of $12,500 in a decade; it will also more than double your investment principal.

Foolish takeaway

With $43,000 invested in the two companies, you can start accumulating about $200 a month in your RRSP. You can either use it to fund an emergency fund, and once it starts spilling over your designated threshold (say $10,000, which it will in fewer than five years), you can divert the excess to other investments.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EXE (Extendicare Inc.)
2. TSX:FN (First National Financial Corporation)

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