2 Great Canadian Dividend Stocks to Own for Decades

Description

Canadian savers are searching for top dividend stocks to buy for their TFSA and RRSP portfolios.

Power of compounding for retirement planning

Savvy young investors have learned to harness the power of compounding as part of their retirement plan. The strategy involves owning top dividend-growth stocks and using the distributions to buy new shares. Over time, the compounding effect can turn small initial holdings into large sums. This is particularly true when the share price increases steadily along with the dividend payouts.

Once an investor reaches retirement, the dividends can be used to provide a steady income stream to complement CPP, OAS, and company pensions.

The best dividend stocks to buy tend to be industry leaders with long track records of dividend growth supported by higher revenue and earnings.

Royal Bank of Canada

Royal Bank (TSX:RY)(NYSE:RY) is Canada's largest bank by market capitalization and a strong player on the global stage. The bank is very profitable and continues to invest in new digital solutions to ensure it remains competitive in the rapidly evolving financial sector.

Royal Bank made it through the pandemic in good shape and is now sitting on significant excess cash. Investors should see generous dividend hikes and share buybacks once the government allows the Canadian banks to restart these programs. A large acquisition could also be an option, as the bank looks to expand its revenue.

The current dividend provides a 3.35% yield.

Royal Bank isn't as cheap as it was last year, but the stock still deserves to be a core holding in a retirement portfolio. A $10,000 investment in Royal Bank 25 years ago would be worth about $360,000 today with the dividends reinvested. The distributions would now provide an annualized dividend stream of about $12,000.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) often gets lumped in with the oil and gas producers when the energy sector takes a hit, as it did last year. The company is certainly an important player in the industry, but Enbridge doesn’t actually produce oil or natural gas; it simply moves the commodities from the producers to their customers and charges a fee for providing the service.

This makes the revenue stream fairly reliable as changes in the commodity prices have limited direct impacts on cash flow. Last year, the drop in fuel demand, however, hit throughput on the oil pipelines, but that situation is temporary. As the U.S. and Canadian economies reopen, fuel demand for planes and automobiles is increasing. This means refineries will order more crude oil feedstock needed to make fuel products.

Enbridge trades below $50 per share at the time of writing compared to $56 before the pandemic. The stock appears cheap right now and offers a 6.7% dividend yield.

Long-term investors have done well with Enbridge. A $10,000 investment in the stock 25 years ago would be worth about $290,000 today with the dividends reinvested. Those holdings would generate about $19,000 in annualized dividends.

The bottom line on investing in top dividend stocks

Buying top dividend stocks and using the distributions to acquire new shares is a proven strategy to build retirement wealth. There is no guarantee that Royal Bank and Enbridge will deliver the same returns over the next 25 years, but the stocks still deserve to be top picks for a dividend-focused portfolio.

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Date
2025/09/13
Date Created
2021/08/09
Author
aswalker