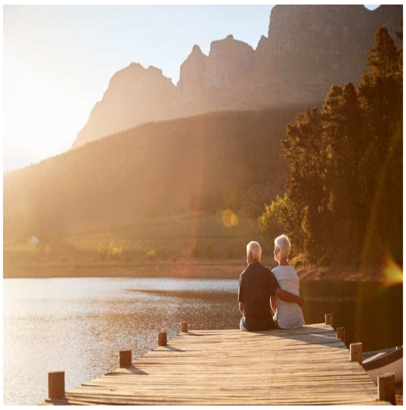

2 Top TSX Stocks to Start a Self-Directed Retirement Portfolio

Description

New investors are searching for top **TSX** stocks to start a self-directed RRSP or Tax-Free Savings Account (TFSA) retirement fund. The overall stock market looks expensive these days, so it makes sense to buy industry leaders with long track records of delivering dividend growth and attractive returns.

CN

CN (TSX:CNR)(NYSE:CNI) has officially abandoned its US$30 billion effort to buy **Kansas City Southern**, a smaller U.S.-based railway that gets about 50% of its revenue from lines running into Mexico. CN shareholders appear to be relieved that the deal didn't go through. The stock has returned to the pre-bid price around $148 after falling below $130 after CN announced its intentions to try to buy KCS.

With US$700 million in net break-fee gains in its pocket and no major new debt on the horizon, CN has restarted its share buybacks and investors should see a big dividend increase in 2022. In short, CN will now refocus on being what investors have always loved about the stock — a profitable business that generates strong free cash flow to support double-digit dividend growth.

CN already operates a unique network in the North American rail industry with lines that connect ports on three coasts. As the U.S. and Canadian economies rebound from the pandemic, CN should see strong demand for its services across a wide range of business segments.

Despite the bounce off the 2020 low, the stock still appears cheap for buy-and-hold investors. A $10,000 investment in CN just 20 years ago would be worth more than $200,000 today with the dividends reinvested.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) reported fiscal Q3 2021 net income of $4.3 billion, representing a

$1.1 billion increase over the same period last year. The big profit number includes a release of provisions for credit losses (PCL) of $638 million, indicating that Royal Bank's customers are getting back on track as the economy reopens after pandemic lockdowns.

Royal Bank set aside billion of dollars in the past 18 months to cover potential loan losses. Government aid and loan deferral programs helped avoid the worst-case scenario. Some pain is likely on the way when financial assistance for homeowners and businesses runs out, but the hit will be manageable for Royal Bank.

The company finished fiscal Q3 with a CET1 ratio of 13.6%, a measure of the bank's ability to cover loan losses. Royal Bank and its peers are required to maintain a CET1 ratio of 9%, so the bank is sitting on excess cash. Investors should expect to see a big dividend increase, potentially in early 2022 when the banks get the go-ahead from the government to restart hiking payouts.

Investors who buy the stock near the current price of $128 can get a 3.4% dividend yield. The stock was as high as $134 in August, so there is a chance right now to buy Royal Bank on a small dip.

Long-term shareholders have enjoyed great returns from Royal Bank, as well. A $10,000 investment in the stock 20 years ago would be worth more than $100,000 today with the dividends reinvested.

The bottom line

While CN and Royal Bank might not generate the same returns over the next two decades, the two companies remain leaders in their respective industries and should continue to deliver strong results for buy-and-hold investors. If you have some cash to put to work in a new TFSA or RRSP portfolio, these stocks deserve to be anchor picks.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)
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