RRSP Investors: 1 Top TSX Dividend Stock to Buy Now and Hold for 25 Years

Description

RRSP investors can buy top TSX dividend stocks and use the power of compounding to build substantial retirement savings in a self-directed portfolio.

What is a stock DRIP?

Many dividend payers offer a dividend-reinvestment plan (DRIP) where investors can automatically use the dividends to buy new shares of the stock. There isn't a fee for the service, and some companies even offer discounts of up to 5% on the stock price.

If you own the shares directly, the full value of the dividend can often be invested, so you can acquire fractions of shares. Online brokerage accounts also allow investors to enroll in the DRIP, although the dividend payment normally needs to be large enough to buy at least one share. The extra cash goes into the account.

Using the DRIP is a great investing strategy to grow the size of your portfolio. The compounding effect acts like a snowball rolling down a hill. Each new share purchased by the dividends leads to even more dividends in the next distribution. The process starts out slowly but can turn small initial investments into large holdings over time. This is particularly true when the company raises the dividend at a regular pace. In these cases, the stock price often grinds higher as well.

Using the DRIP is also a good way to take advantage of dips in the share price when the market goes through a correction.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a Canadian utility firms with $57 billion in assets located in Canada, the United States, and the Caribbean.

The company has raised the dividend in each of the past 48 years and intends to boost the payout by an average rate of 6% annually through at least 2025. That's great guidance for dividend investors.

Fortis gets most of its revenue from regulated businesses. This is important, because it means revenue and cash flow are both predictable and steady. The reliability of the cash flow stream helps keep the stock from falling too much when the broader market hits a rough patch. That's why Fortis has a low beta, which is a measure of the stock's volatility relative to the overall index.

Fortis grows by making strategic acquisitions and investing in new development projects. The current $20 billion capital program will significantly increase the rate base over the next five years. This is why the board is comfortable providing the dividend-growth projections.

Long-term investors have done well holding Fortis stock. A $10,000 investment in the shares 25 years ago would be worth about $180,000 today with the dividends reinvested. The annual dividends paid out on the holding would now be about $6,660 at the current dividend yield of 3.7%.

The bottom line on top stocks to build RRSP wealth

Fortis is a great example of how a top dividend-growth stock can help Canadian investors create a substantial RRSP portfolio over time. Harnessing the power of compounding takes patience and discipline, but the payoffs can be significant.

The **TSX Index** is home to many top dividend stocks that have delivered equal or even better returns.

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1. Dividend Stocks
2. Investing

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