



2 Top Stocks for RRSP Investors

Description

Canadian savers are searching for good stocks to buy for their self-directed [RRSPs](#). Owning quality dividend stocks and using the distributions to buy new shares is a popular [investing strategy](#) for building retirement wealth.

Power of compounding

Everyone knows what happens when you roll a snowball to make a snowman. Each turn picks up more snow, making the ball larger. As the ball gets bigger, it picks up even more snow, and so on until it becomes so heavy that you can't even move it without some help.

The same theory applies to investing in dividend stocks. When distributions are used to buy new shares, the size of the holding continues to grow. The process is slow at the start, but a modest initial investment can become a large pile of savings over the course of two or three decades. This is particularly true when the dividends steadily increase and the share price rises.

Fortis

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) is a utility company with \$58 billion in assets located in Canada, the United States, and the Caribbean. The firm has grown steadily over the years through strategic acquisitions and internal investments.

The current \$20 billion capital program is expected to increase the rate base by an average of 6% per year through 2026. As a result, Fortis should see cash flow expand to support its planned dividend growth of about the same rate through at least 2025.

Fortis raised the dividend in each of the past 48 years. The current distribution provides a yield of 3.7%.

Long-term RRSP investors have done well with Fortis stock. A \$10,000 investment in Fortis 25 years ago would be worth about 180,000 today with the dividends reinvested.

TD Bank

TD ([TSX:TD](#))([NYSE:TD](#)) raised the dividend by 13% when it reported fiscal 2021 results. The bank is sitting on a war chest of excess cash it set aside to cover potential pandemic losses. Government aid programs helped avoid the worst-case scenario, and TD is now looking for ways to deploy the extra funds.

The bank has large operations in both Canada and the United States, giving investors good exposure to U.S. economic growth through a top Canadian company. In 2022, the Bank of Canada and the U.S. Federal Reserve are expected to start raising interest rates. This will potentially slow down the housing market, but TD will benefit from higher net interest margins as rates rise.

Management is open to making a large acquisition if one comes up that suits the growth strategy. If that doesn't happen, the bank will likely ramp up share buybacks and continue to increase the dividend at a generous pace.

The current payout provides a yield of 3.3%.

A \$10,000 investment in TD stock 25 years ago would be worth more than \$250,000 today with the dividends reinvested.

The bottom line on RRSP investing

Fortis and TD are good examples of top TSX dividend stocks that RRSP investors can own for decades to build retirement wealth. Future returns might not be the same, but the strategy of owning quality dividend-growth stocks and using the distributions to buy new shares is a proven one for achieving investment success.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:FTS (Fortis Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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