2 Top TSX Stocks to Help You Retire Wealthy

Description

The strategy of buying top dividend-growth stocks and using the distributions to acquire new shares is a proven one for building retirement wealth.

Power of compounding

Every Canadian investor knows how to build a snowman. You take a small snowball and roll it along the snow until it gets so large that you can't move it or need a few friends to keep it going. The transformation happens quickly from a small ball of snow that fits in the palm of your hand to a giant snow boulder that you can't even wrap your arms around.

This is a great example of the power of compounding, and the same thing can happen to investments, especially when it comes to top dividend stocks.

Great companies pay reliable and growing distributions. When investors use the payouts to buy more shares, the compounding process kicks into gear. Each new share increases the dividends that get paid, and those distributions can then buy even more shares. Over the course of a few decades, the result can be impressive when steady dividend hikes occur alongside a rising stock price.

Canadian National Railway

CN (TSX:CNR)(NYSE:CNI) is a leader in the North American rail sector with a unique network of lines that connects ports on three coasts. The company generates revenue in both Canadian and U.S. dollars, giving investors a good opportunity to benefit when the American currency rises in value against the loonie.

CN serves key segments in the economy, transporting raw materials and finished goods. When one group has a slow quarter, the others tend to pick up the slack. CN generates strong profits in nearly all economic conditions and has one of the best dividend-growth rates in the TSX Index over the past two decades.

Long-term shareholders have done very well with the stock. A $10,000 investment in CN shares just 25 years ago would be worth about $600,000 today with the dividends reinvested.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) is Canada's largest company with a market capitalization of $200 billion. It is also among the top 10 in the world based on this metric.

Royal Bank made it through the pandemic in good shape and is using the excess cash it built up to buy back stock and raise the dividend. Investors might also see a large U.S. acquisition materialize in the near term. Two other top Canadian banks have already announced big deals in the United States.

Royal Bank is making the investments needed in digital infrastructure and mobile banking to ensure it stays competitive in a rapidly evolving sector. Despite the heavy capital outlays, the bank remains a cash machine, and investors should see strong dividend growth continue.

As with CN, Royal Bank has been a great long-term investment. A $10,000 position in the stock 25 years ago would be worth more than $240,000 today with the dividends reinvested.

The bottom line on building retirement wealth

CN and Royal Bank are excellent examples of top TSX stocks that investors can own for decades to build substantial retirement portfolios. Future returns on these stocks might not be as high, but CN and Royal Bank still deserve to be anchor holdings in a self-directed retirement fund.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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aswalker