RRSP Investors: 2 Top Dividend Stocks to Create Retirement Wealth

Description

Canadian retirement investors are searching for top dividend stocks to put in their self-directed RRSP portfolios. One popular strategy involves owning reliable dividend-growth stocks and using the payouts to buy additional shares.

Canadian National Railway

CN (TSX:CNR)(NYSE:CNI) had a rough ride in 2021 with its failed bid to buy Kansas City Southern. The distraction put the share price through some uncharacteristic volatility and led to a change in the CEO position.

With the company now back on track and focused on generating higher investor returns, CN looks attractive for a buy-and-hold RRSP portfolio. The company operates a unique network of lines that connects ports on three coasts in Canada and the United States. The rail sector enjoys a wide competitive moat, and operators have the power to raise prices to combat inflationary pressures.

CN is a profit machine and has a great track record of returning free cash flow to investors through dividend increase and share buybacks. The company raised the distribution by 19% for 2022 and is buying back up to $5 billion in common stock under the new repurchase plan through January next year. That's about 6.8% of the outstanding float.

Long-term RRSP investors have done well with CN stock. A $10,000 investment in the company 25 years ago would be worth close to $600,000 today with the dividends reinvested.

TD Bank

TD (TSX:TD)(NYSE:TD) is another very profitable Canadian company. The country's second-largest bank by market capitalization earned $14.65 billion in adjusted net earnings in fiscal 2021. That's pretty good considering the pounding the economy took as a result of the pandemic.

A strong housing market fuelled by low interest rates and significant government aid programs helped TD avoid the worst-case scenario over the past two years. As a result, TD amassed a large war chest of cash it had set aside for potential losses and recently announced a major acquisition to spend the funds.

TD is buying First Horizon in the United States for US$13.4 billion. The deal expands TD's presence in the American retail banking market by adding more than 400 branches, US$55 billion in loans, and US$75 billion deposits. Once the deal closes TD will be one of the six largest retail banks in the country.

TD raised its dividend by 13% last fall. Investors should see steady dividend increases continue in the coming years. The bank has a compound dividend-growth rate of better than 10% per year over the past two decades.

The stock is down to $99 per share at the time of writing from the 2022 high around $109. Investors have a chance to buy TD on a nice dip and can pick up a yield of 3.6%.

Shareholders have enjoyed attractive long-term returns from TD stock. A $10,000 investment in the shares just 25 years ago would be worth about $250,000 today with the dividends reinvested.

The bottom line on top stocks to build RRSP wealth

CN and TD are leaders in their respective industries and have delivered great long-term results for buy-and-hold RRSP investors. The return in the next 25 years might not be the same, but these stocks remain attractive RRSP picks today.

The strategy of owning top dividend-growth stocks and using the distributions to buy new shares is a proven one for creating retirement wealth.

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