



New RRSP Investors: How to Turn a \$20,000 Portfolio Into \$1.2 Million Using Top Dividend Stocks

Description

Canadian savers are looking for top stocks to buy inside their self-directed [RRSPs](#) to build wealth for retirement. One popular strategy involves buying quality dividend stocks and using the distributions to acquire new shares. This kicks off a powerful compounding process that can turn small initial investments into substantial retirement [wealth](#) over the course of 20 or 30 years.

Canadian National Railway

CN ([TSX:CNR](#))([NYSE:CNI](#)) might not be as exciting for young investors as tech, crypto, or cannabis, but investing for retirement is about building wealth over the long haul, not short-term trading or entertainment.

The rail [sector](#) has built-in competitive protection that makes CN and its peers attractive picks for buy-and-hold RRSP investors. New lines will not be built alongside existing routes, and the rail operators have the power to raise prices when fuel and other costs increase. CN, in particular, has a wide competitive moat with its unique network that connects ports on three coasts in Canada and the United States.

The management team is focused on driving strong investor returns. CN raised the dividend by 19% for 2022 and is buying back stock under an aggressive share-repurchase program. The business generates significant free cash flow and revenue grows in step with economic expansion.

Long-term RRSP investors have become quite rich holding CN stock. A \$20,000 investment in the shares just 25 years ago would be worth about \$1.2 million today with the dividends reinvested.

CN stock trades near \$160 at the time of writing compared to the recent high around \$171, so there is a chance today to pick up the shares on a dip.

Bank of Nova Scotia

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) is sometimes overlooked by investors in favour of its larger Canadian peers, but that might be a mistake for investors who have a long-term investment focus.

Why?

Bank of Nova Scotia invested billions of dollars over the past decade to acquire banks and credit card portfolios in Mexico, Peru, Chile, and Colombia. The four members of the Pacific Alliance trade bloc are home to a combined population of more than 230 million. Bank penetration is only about 50%, so there is significant growth potential as middle-class income expands.

Latin America has a volatile economic and geopolitical history, and that adds risk for investors. The pandemic hit the region hard, and Bank of Nova Scotia's international business suffered in 2020 as a result. That being said, the international operations normally generate strong profits and fiscal 2021 was a much better year.

The share price is down to \$88 on the recent pullback in the bank sector. BNS stock traded above \$94 in February, so the selloff looks like a good opportunity to start a new position. Investors who buy at this level can secure a 4.5% dividend yield.

Bank of Nova Scotia raised the dividend by 11% late last year, and the board just increased the size of the share-repurchase plan. Investors should see another large distribution increase for 2023.

A \$20,000 investment in Bank of Nova Scotia 25 years ago would be worth about \$350,000 today with the dividends reinvested.

The bottom line on top dividend stocks to build a retirement fund

CN and Bank Nova Scotia are good examples of how RRSP investors can use the power of compounding to build retirement wealth. There is no guarantee the future returns will be the same, but these stocks still deserve to be anchor holdings, and the strategy of using dividends to buy new shares is a proven one for creating wealth.

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Date

2025/07/23

Date Created

2022/04/05

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