How to Use Dividend Stocks to Build Retirement Wealth

Description

Canadian savers are looking for ways to build substantial TFSA or RRSP portfolios to provide income in retirement.

Power of compounding

One popular investing strategy for creating a wealth fund for retirement involves owning dividend stocks and using the distributions to buy new shares. The compounding process is slow at the start, but over the course of a few decades, the strategy can turn small initial investments into large retirement savings. Stocks that raise their dividends regularly are good candidates. These companies also tend to have share prices that increase over time as well.

BCE

BCE (TSX:BCE)(NYSE:BCE) is a favourite pick among retirees who like the company for its reliable and generous dividends. The stock is also attractive for younger investors who want to build a self-directed pension fund.

BCE is a leader in the Canadian communications industry with a wide competitive moat. The company continues to make the investments needed to protect its competitive position, while ensuring customers have the broadband capacity and network connectivity they need for work and entertainment.

BCE is running fibre optic lines right to premises of its clients. Owning the high-speed connection to the building is one way to help ensure customers continue to use BCE’s services. BCE is also expanding its 5G network after spending $2 billion last year on new 3,500 MHz spectrum.

The board has raised the dividend by at least 5% per year for the past 14 years. That's the kind of dividend-growth consistency investors want to see when evaluating a stock for a buy-and-hold retirement portfolio. At the time of writing, BCE stock provides a 5.4% dividend yield.

Long-term investors have done well with BCE. A $10,000 investment in the stock 25 years ago would be worth more than $250,000 today with the dividends reinvested.

TD Bank

TD (TSX:TD)(NYSE:TD) raised the dividend by 13% late last year, and investors should see another large increase for 2023. The bank is one of the top dividend-growth stocks one the TSX Index over the past 20 years with a compound average annual growth rate of better than 10%.

TD built up a large emergency fund to ride out the pandemic. Government aid to homeowners and businesses helped avoid a significant wave of loan defaults. Now that the largest threats are in the rearview mirror, TD is deploying the excess cash to drive growth and reward investors.

TD is in the process of buying **First Horizon** for US$13.4 billion in a deal that will expand the American business by more than 400 branches and make TD a top-six bank in the United States. As the American economy gets bigger, TD and its investors should benefit from loan and deposit growth as well as expanded sales of investment products.

TD trades near $96 per share at the time of writing compared to the 2022 high around $109. Investors have a chance to buy the stock on a decent pullback and pick up a solid 3.7% dividend yield.

Retirement investors have received solid total returns from TD over the years. A $10,000 investment in the stock 25 years ago would be worth more than $255,000 today with the dividends reinvested.

The bottom line on top stocks for a retirement portfolio

BCE and TD are leaders in their sectors. The two companies have great track records of dividend growth and share price appreciation. If you have some cash to put to work in a TFSA or RRSP focused on total returns, these stocks deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

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

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