



RRSP Investors: How to Build Retirement Wealth With Top Canadian Dividend Stocks

Description

Canadian savers are using their self-directed Registered Retirement Savings Plan ([RRSP](#)) to create portfolios of investments for retirement. One popular [investing strategy](#) involves owning high-quality dividend stocks and using the distributions to buy new shares. The compounding process can turn small initial investments into substantial savings over the course of two or three decades.

Fortis

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) owns power generation, electricity transmission, and natural gas distribution businesses in Canada, the United States, and the Caribbean. The company gets 99% of its revenue from regulated assets. This means the revenue stream tends to be predictable, making it easier for management to plan investments and commit to dividend increases.

Fortis is currently working on a \$20 billion capital program that will increase the rate base by roughly a third through 2026. Management expects cash flow to increase enough to support targeted average annual dividend increases of 6% until at least 2025. This is good guidance in the current situation of economic uncertainty. Economists widely expected Canada and the United States to go through a recession in 2023 or 2024.

Fortis increased the dividend in each of the past 48 years, so investors should feel confident the board will deliver on the planned dividend hikes. At the time of writing, the dividend provides a 3.5% yield. Fortis gives investors a 2% discount on stock purchased using the dividend-reinvestment plan.

Long-term holders of Fortis stock have enjoyed solid returns. 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 its dividend by 13% late last year and has a compound annual dividend

growth rate of better than 10% over the past two decades. That's the kind of dividend growth RRSP investors like to see when they are taking a buy-and-hold approach to investing and are using dividends to buy new shares.

TD stock currently looks cheap to buy for a self-directed RRSP. The share price is just \$88 at the time of writing compared to \$109 earlier this year. Bank stocks sold off in recent months due to rising recession fears, but the pullback looks overdone. An economic downturn could slow revenue growth and trigger higher loan losses. An uptick in business and personal bankruptcies is likely, as interest rates soar and inflation remains elevated, but a deep and prolonged recession is not expected.

TD has a strong capital position with a common equity tier-one ratio of 14.7% as of the end of the fiscal second quarter 2022 and continues to grow its revenue and profits. Adjusted net income increase roughly 5.5% to \$7.54 billion through the first half of fiscal 2022 compared to the same period in 2021.

TD has the capital needed to ride out a downturn and is using its excess cash to make two acquisitions in the United States to drive future growth. TD is buying retail bank **First Horizon** for US\$13.4 billion and investment bank **Cowen** for US\$1.3 billion.

TD's current dividend provides a 4% yield. A \$10,000 investment in TD stock 25 years ago would be worth about \$200,000 today with the dividends reinvested.

The bottom line on top dividend stocks to buy for a self-directed RRSP

Fortis and TD pay attractive dividends that should continue to grow at a steady pace. The stocks have delivered great total returns for investors and still deserve to be anchor picks for a self-directed RRSP.

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