Got $1,000? Buy These 2 Stocks and Hold Until Retirement

Description

Have you already built an emergency fund that's enough to cover three to six months of your living expenses? And now you have an extra $1,000 to spare? Consider buying these Canadian stocks to hold until retirement. We'll discuss two stock ideas in this article.

The longer you have until retirement, the larger your positions can grow, barring any temporary setbacks from market corrections. The idea is to continue adding to quality stocks when they trade at good valuations — ideally at meaningful discounts to their intrinsic values.

RBC stock

The big Canadian banks have been some of the most profitable businesses through economic cycles. And **Royal Bank of Canada** (TSX:RY)(NYSE:RY) takes the biggest share. Its annual net income is close to $16 billion. Moreover, it consistently shares 40-50% of its earnings with its stockholders. In the trailing 12 months, its payout ratio was approximately 43% of its net income available to common shareholders.

Currently, Canadian bank stocks are being weighed down by a weaker economic outlook from high inflation and rising interest rates. Consumers and businesses are expected to be more careful with their spending, as costs have gone up big time. Rising interest rates increase the borrowing costs, which also reduces consumer spending and business investments. However, higher rates typically benefit banks, as the banks may be able to enjoy higher net interest income.

So far, RBC has posted resilient results. Three-quarters of the fiscal year passed. Fiscal year to date, its earnings per share (EPS) have only declined by 1%. But the stock is down 9% since the start of the year. The dip to about $122 per share brings the dividend stock to about 10.9 times earnings — a discount of roughly 10% from its long-term normal valuation.

RBC stock achieved EPS growth of 9.5% per year in the past decade. So, its medium-term growth rate target of 7-10% seems reasonable.

Now is a good time to look more into the diversified bank for a potential investment starting with a dividend yield of about 4.2%.

A top TSX stock

You can complement a stable investment in RBC stock with a proven tech stock that has higher growth potential. **Constellation Software** (TSX:CSU) is a very well-managed company that provides mission-critical software for vertical markets. Acquisitions are also a big part of its growth strategy — one that it has executed successfully.

To get a taste of the incredible growth stock's goodness, look to its long-term shareholder creation. For example, in the last 10 years, it has grown investors' money 25-fold. This equates to total returns of 38% per year. I can't think of another top **TSX** stock that has beaten this kind of return. Can you?

Even if you just bought the stock five years ago, you still would have tripled your money for returns of 27% per year. These returns were supported primarily by corresponding earnings growth.

The tech stock doesn't trade cheaply for its incredible growth prospects. At $1,977 per share at writing, it trades at below 32 times earnings. That's a price-to-earnings-to-growth ratio of approximately 2.1 assuming the analyst consensus three-to-five-year EPS growth rate of about 15%. In the case of CSU stock, paying up for quality and growth could work in investors' favour in the long run.

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2. TSX:CSU (Constellation Software Inc.)
3. TSX:RY (Royal Bank of Canada)

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