2 Stocks to Help You Retire Rich

### Description

Building retirement wealth and having a substantial nest egg when you retire is possible through dividend investing. The task may appear daunting in the current environment. After all, there has never been a time when the **TSX** was free of risks. Yet from 1988 to 2021, Canada's primary stock market lost in only 10 of the past 33 years.



The biggest loss was 35% in 2008 during the Global Financial Crisis. However, TSX stocks bounced back in 2009 to post their largest gain (+30.7%) in more than three decades. The point here is that stocks deliver higher returns over the long term.

If your goal is to retire rich or at least comfortably, time and the choice of investment are crucial elements in retirement planning. Younger Canadians have the luxury of time. For those starting late, you can still make up for lost time. Many retirees are worry-free because they utilized investment accounts like the Registered Retirement Savings Account (RRSP) and Tax-Free Savings Account (TFSA) to the hilt.

## Power of compounding

Saving or regularly stashing money in bonds and then investing in dividend stocks is the usual formula on the journey to retirement. The power of compounding interest comes into play when you don't touch dividends and instead reinvest them every time. RRSP or TFSA balances grow faster because dividends earn new dividends and so on.

Let's assume the amount of investment is $100,000 and the dividend yield is constant at 4% per annum. The money will compound to $148,024 in 10 years. However, if the timeframe is 20 or 30 years, the capital will grow to $219,112 and $324,339, respectively.

The example illustrates that you'll get the most benefit from compounding if you start saving and investing early. Since time is on their side, younger folks are likely to retire richer with this strategy.

## Retirement stocks

Big Bank stocks like the **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Bank of Nova Scotia** ( TSX:BNS)(NYSE:BNS) are ideal anchors for future retirees. Apart from dividend track records of 190 years or more, their dividend yields are more than 4%.

BMO, Canada's oldest and fourth-largest lender is the dividend pioneer. The $81 billion bank started paying dividends in 1829. BNS, the third-largest in the banking sector, followed three years later. Dividend-wise, BMO pays a 4.59% dividend compared to the 5.38% yield of BNS.

Despite the downgrades of market analysts due to weaker earnings in Q3 2022, BMO and BNS remain the top retirement stocks on the TSX. According to Darryl White, BMO's CEO, the bank's robust loan growth and margin expansion during the quarter were behind record revenue in personal and commercial banking (Canada and the U.S.).

Also, BMO attributes a drop in net income from $2.3 billion in Q3 2021 to $1.4 billion to an after-tax loss ($694 million) related to a $16.3 billion transaction to acquire U.S.-based Bank of the West.

Likewise, BNS is enjoying strong loan growth and an improving net interest margin while reining in expenses. Although net income dropped 5.6% from Q2 2022, BNS President and CEO Brian Porter said earnings per share (EPS) and return on equity grew 4% and 15.4% year over year, respectively.



## Dividend consistency

BMO and BNS are time-tested and have endured the worst financial crises. The consistency of dividend payments is never in doubt regardless of the economic environment.

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1. Bank Stocks
2. Investing

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2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BMO (Bank Of Montreal)
4. TSX:BNS (Bank Of Nova Scotia)

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