3 Dividend Stocks for Your RRSP

Description

It might be the biggest retirement myth in Canada: Dividend stocks don't belong inside your registered retirement savings plan (RRSP).

The argument sounds logical. Interest is taxed at a much higher rate than dividends or capital gains. So assuming you don't have room for both, you should keep fixed income investments inside your tax sheltered accounts.

There's only one flaw in this position: It ignores the rate of return. When interest rates were much higher, stuffing fixed-income securities inside your RRSP made sense. But with yields near historic lows, you're not saving much income from the revenue man.

Equities, in contrast, should produce much better returns than bonds over the long haul. If future stock market returns fall roughly in line with historical averages, you could actually end up saving more in taxes by sheltering your stocks instead.

Of course, you should consult a tax professional to determine what's best for you. But if the numbers make sense, here are three dividend stocks to add to your RRSP this year.

1. Enbridge Inc.

When I try to convince my friends on the benefits of dividend growth investing (nerdy stuff, I know), I always point to **Enbridge Inc.** (TSX:ENB)(NYSE:ENB).

Over the past 20 years, the company has raised its dividend at an 11% compounded annual clip. If you had bought 100 shares of Enbridge at the start of 1995 and never made another purchase, you would have 800 shares today thanks to stock splits.

What's more, the yield on your original investment would now be almost 100% with reinvested distributions. That's why I love dividend payers like Enbridge. With many companies phasing out pension plans, stocks like these can be counted on for inflation-proof income through retirement.

2. Shaw Communications Inc.

Who else wants monthly income?

The only problem with dividend stocks is that many companies only make four payments each year. That might be OK for some. But for those of us who have bills to pay, quarterly distributions don't mesh well with monthly expenses.

Thankfully, some companies have seen the value in paying investors more frequently. For years, **Shaw Communications Inc** (TSX:SJR.B)(NYSE:SJR) has paid shareholders on a monthly basis.

It's a real win-win for everyone: Shaw earns a loyal shareholder base while investors can better match their income with expenses. Today, the stock pays out a monthly dividend of 9.17 cents per share, which comes out to an annualized yield of 4.0%.

3. Canadian Pacific Railway Limited

When Warren Buffett is evaluating a business, he asks, "If I had a billion dollars, how much could I hurt this guy?"

In the case of **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP), not all that much. Even if you and I could scrape together $1 billion… $2 billion… even $5 billion, chances are we couldn't compete. The sheer cost to buyout landowners and acquire right-of-ways is enough to keep any possible rivals out of the business.

As a result, CP has been able to crank out oversized returns for shareholders year after year. Given that it's almost impossible to build a competing business, investors can expect hearty dividends for decades more to come.

CATEGORY

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