



What Kinds of Stocks Should You Hold in Your Kid's RESP?

Description

[This article](#) discusses that to encourage parents to save money for their kid's education, the government will match 20% of all annual RESP contributions up to \$2,500, giving families a \$500 bonus per child.

If you want to eliminate any uncertainty, you should put all that money in a savings account or GIC. However, historically, we know that stocks provide a higher return. The question is, which stocks should you buy?

The article gives two market leaders that have long track records of dividend growth and capital appreciation: **Fortis Inc.** ([TSX:FTS](#)), and **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)).

Both companies provide capital preservation because they tend to increase earnings, which is the nutrient that spurs dividend growth and capital appreciation. However, there are some distinguishable traits about the two companies.

Income focused

Fortis is a market leader in the electric and gas utility business. Electricity and gas are necessities, so whether the economy is doing well or not, people still need to pay for them.

By investing in Fortis, you're doing it for its business stability, which translates to earnings stability and dividend stability. Fortis and other quality utilities are known to pay out generous dividends.

In fact, Fortis has increased dividends for 41 consecutive years. Right now, it pays out a quarterly dividend of \$0.34 per share, equating to an annual payout of \$1.36 per share. That means if you buy 100 shares today, you'll receive \$136 a year.

The annual payout is a yield of 3.7% at today's price of \$37. This is a generous yield compared to the **iShares S&P/TSX 60 Index Fund**, which pays 2.8% presently. Historically, the growth of Fortis's dividend has kept pace with inflation by growing at a rate of 3-9%.

Going forward, Fortis should be able to increase earnings by at least 3-5% a year. Unless it wants to reduce the payout ratio, its dividend should grow at that rate as well.

Growth focused

I consider Canadian National Railway a growth-focused investment compared to Fortis, which is income focused. The railroad's yield is 1.6%, but Fortis pays a dividend that's 2.3 times higher.

However, Canadian National Railway has historically hiked dividends at a rate of 14-18%. This double-digit rate is what I mean by growth. Its earnings have typically grown between a high single-digit rate, such as 9%, or a double-digit rate, such as 13-20%. That's why it's able to increase dividends at a high rate.

What should you do?

You would buy a stable business such as Fortis for its steadily growing income, which would also lead to capital appreciation. On the other hand, you would buy Canadian National Railway for its high-growth business, whose returns mostly come from capital appreciation rather than income.

However, high-growth businesses have the risk of growing at a slower rate than estimated. Still, if you sprinkle some high, reasonable-growth companies in your kid's RESP, it can do wonders in the long term.

There's nothing stopping you from buying a mix of income-focused companies along with some growth-focused companies. For example, you can aim for 70% income-focused companies and 30% growth-focused companies.

Income-focused companies

Here are some income-focused companies for your initial research. I simply listed the industry leaders.

- **Fortis Inc.:** Utility
- **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)): Bank
- **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)): Telecom
- **Canadian Apartment Properties REIT** ([TSX:CAR.UN](#)): Residential REIT
- **Canadian REIT** (TSX:REF.UN): Diversified REIT
- **RioCan REIT** ([TSX:REI.UN](#)): Retail REIT
- **Allied Properties REIT** (AP.UN): Office REIT

Growth-focused companies

Here are some growth-focused companies for your initial research.

- **Canadian National Railway Company:** Railroad
- **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)): Pipeline

- **Metro, Inc.** ([TSX:MRU](#)): Grocery store

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:FTS (Fortis Inc.)

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Tags

1. Editor's Choice

Date

2025/08/21

Date Created

2015/07/23

Author

kayng

default watermark

default watermark