



## What Kind of Stocks Should You Hold in an RRSP?

### Description

It seems the conversation about investing in a Registered Retirement Savings Plan (RRSP) becomes quieter and quieter as the months go by in a year, and is most discussed near the deadline of the tax year. Saving and investing should be a consistent act, so I'm bringing it up again.

By investing instead of just saving, you're looking for higher returns that come with higher risk. Before thinking about what stocks to hold in an RRSP, I think it's essential that you have real-world experience in buying and holding stocks in a non-registered account because you don't know how you will react to the different news and events that are thrown at you, good or bad.

I emphasize this because whatever happens in a RRSP stays in it. There's no tax reporting for a gain or a loss, which also means you can't write off your capital losses like you can in a non-registered account. It could take a long time to recover your losses.

Here are the different types of stocks you should consider holding in an RRSP.

#### U.S. dividend stocks

High-yielding U.S. dividend stocks should be held in an RRSP because typically there would be a 15% withholding tax on their dividends if held in a non-registered account or a TFSA account. If held in a non-registered account, a foreign tax credit can be filed, but you would still be paying your marginal tax rate to the government because the dividends are foreign income.

That's why it's more worthwhile to buy high-yielding U.S. dividend stocks such as **Kinder Morgan Inc.** ([NYSE:KMI](#)) in an RRSP, so it can compound for many years in a tax-deferred environment.

The Canadian stock market only makes up about 4% of the global stock market. Many Canadian portfolios can probably use more diversification from the U.S. market, including sectors such as healthcare, consumer staples, and consumer discretionary. For example, popular choices that offer decent and safe dividends include **Johnson & Johnson** ([NYSE:JNJ](#)), **The Coca-Cola Co** ([NYSE:KO](#)), and **Procter & Gamble Co** ([NYSE:PG](#)).

## Real estate investment trusts

REITs typically own and operate hundreds of properties that are diversified geographically. If you're looking for rental income without having to manage or maintain the properties, or without having to hire someone to do it for you, you should consider REITs.

A REIT's distributions are not eligible dividends, so they're likely taxed higher than the Canadian-eligible dividends that you receive, say, from **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)).

There are lots of quality REITs to choose from. **Smart REIT** ([TSX:SRU.UN](#)) is a retail REIT that yields 5.3% and its funds-from-operations are expected to grow around 5% per year. So, its estimated return is 10% per year.

And there's **Canadian REIT** (TSX:REF.UN), a diversified REIT with retail, office, and industrial properties. It is a conservatively run REIT with a highly sustainable yield of 4.3% since its payout ratio is only around 60%.

Of course, you can also buy U.S. REITs in an RRSP. Many offer solid dividends, including **Realty Income Corp.** ([NYSE:O](#)).

## In conclusion

Too bad the U.S. dollar is so strong right now. Canadians would need to pay an extra 30% to convert from Canadian dollars to U.S. dollars. So, you'll need to decide whether it's worth it to buy U.S. stocks instead of Canadian ones.

No matter what you decide on, it's essential to focus on quality companies because you can't report losses in an RRSP. An RRSP works especially for those with high tax brackets because they can lower their tax brackets for the year by contributing to an RRSP. They would pay less taxes for now and can compound the money in a tax-deferred environment.

In summary, in an RRSP, Foolish investors should consider holding REITs and U.S. dividend stocks that pay high yields. However, if you have lots of room in a TFSA, it makes sense to hold Canadian REITs in a TFSA to avoid taxes forever. Of course, I encourage you to invest in an RRSP or TFSA only *after* you gain real-life experience investing in a non-registered account.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:KMI (Kinder Morgan Inc.)
2. NYSE:KO (The Coca-Cola Company)
3. NYSE:O (Realty Income Corporation)
4. NYSE:RY (Royal Bank of Canada)
5. TSX:RY (Royal Bank of Canada)

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**Date**

2025/06/29

**Date Created**

2015/08/14

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