



Attention Parents: 2 RESP Picks to Help Finance Your Kid's Education

Description

Canadian parents are using Registered Education Savings Plans (RESPs) to set aside cash for their children's years at college or university.

Let's take a look at the benefits of the RESP as well as two stocks that could help you boost the size of the funds.

Free money

Under the current structure, the Canadian government will kick in an additional 20%, up to \$500 per year, for every dollar parents put in the RESP.

So, any family that can find \$2,500 to set aside for their kid's education will automatically see that amount jump to \$3,000.

Depending on the family's income level and province of residency, the top-up amount could be even higher as a result of additional income-related assistance.

Parents can carry forward any unused contribution room, but the rules only allow you to "catch up" one previous year, per year.

So, if you didn't contribute in 2016, you can put \$5,000 in the RESP in 2017 and receive \$1,000 in grants.

Where to invest?

Some people take the one-time 20% grant and then simply place the funds in GICs. That's certainly the safest option, and one that makes sense, especially if your child is older and will need the funds in the next five years.

Parents with children who are very young might be willing to look at dividend-growth stocks as a means to invest the RESP funds for the first 10-15 years, and then move the money into fixed-income

holdings as the child gets older.

This option carries more risk, so it isn't for everyone, but the strategy can also build the savings significantly, especially if the dividends are reinvested in new shares.

Which stocks are best?

The most attractive names are high-quality companies with leadership positions in their respective industries.

Let's take a look at **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) and **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) to see why they might be interesting picks.

Enbridge

The energy sector is struggling right now, and public opposition to mega-pipelines is getting a lot of press, so why is Enbridge still attractive?

Enbridge is in the process of buying **Spectra Energy** for \$37 billion. The deal will create North America's largest energy infrastructure business with assets located across Canada and the United States.

The two companies have \$26 billion in commercially secured projects on the go that should keep investors satisfied while the energy sector works through the downturn. As these assets are completed and go into service, Enbridge expects cash flow to increase enough to support annual dividend growth of at least 10% through 2024.

The dividend currently yields 3.8%.

A single \$5,000 investment in Enbridge 15 years ago would be worth \$49,000 today with the dividends reinvested.

CN

CN is the only North American railway company that offers access to three coasts. That's a strong competitive advantage that is unlikely to change.

Why?

Merger efforts in the rail industry tend to hit regulatory roadblocks, and there is little chance new rail line will ever be built alongside existing routes.

CN still has to compete with other forms of transportation, and some sections of the network are served by competing rail lines. As a result, management works hard to make the company as efficient as possible, and CN is widely regarded as the best-run business in the industry.

The company is extremely profitable and is very generous when it comes to sharing the earnings with stockholders. CN's average compound annual dividend-growth rate is about 17% over the past 20 years.

A \$5,000 investment in CN just 15 years ago would be worth \$53,000 today with the dividends reinvested.

Is one a better bet?

Both stocks are attractive buy-and-hold picks. Six months ago, I would have picked CN, but the stock has enjoyed a nice rally in the back half of the year, so it's pretty much a coin toss between the two names today.

CATEGORY

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1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:ENB (Enbridge Inc.)

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