Does Toronto-Dominion Bank Belong in Your RRSP?

Description

Smart investors should always be looking for ways to ensure their retirement is as secure as possible. In my opinion, the right stocks to go into a registered retirement savings plan (RRSP) are those that pay dividends primarily because you can redeploy that cash, tax free, back into other stocks versus losing a part of it in taxes.

That's why I believe **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) belongs in your retirement account. The company pays a 3.3% yield, which is good for a quarterly distribution of $0.60. Let's do some basic math to see why investing in TD in your RRSP makes sense versus a taxable account.

Let's assume you have 1,000 shares of TD, which means your value is $72,700 and you're earning $600 per quarter, or $2,400 per year. Let's assume that your tax rate is 40%. You'd pay $480 on that $2,400 in earned income, which is nearly a quarter of your yearly dividends. That would leave you with $1,920 to reinvest into new shares of either a new company or TD, which gets you 26.4 additional shares.

Now, let's say those same shares are held in a RRSP. Instead of 26.4 additional shares of TD, you get 33 shares. It's true — 6.6 additional shares doesn't make that much of a difference with the extra $15.84 a year in dividends, but if you were to expand that out over 30 years, the extra dividends would be much greater than they are today.

Ultimately, you'll have to pay taxes when you start withdrawing the money, but you'll be pulling from a much larger portfolio versus trying to build a portfolio with the government taking a cut every step of the way.

Now that we understand the math behind holding dividend stocks in a RRSP, let's dive into why you should own this bank stock in particular.

TD continues to execute flawlessly with continuously growing earnings. In Q3 2017, it delivered adjusted net income of $2.865 billion compared to $2.416 billion a year prior. And year to date, its adjusted net income is more than $1 billion higher than the $7.984 billion in 2016.

And I expect earnings to continue growing over the coming years thanks to rising interest rates. The spread between what it pays its depositors and what it charges to its borrowers will ultimately boost earnings. And with the housing market cooling at a very slow rate, I am not too concerned about that cutting into the company's overall growth prospects.

So, is this the right time to buy TD?

While I would have preferred to have picked up shares over the summer when they were lower, hindsight is always 20/20. Therefore, here's what you have to consider: TD's dividend only accounts for a payout ratio of 46%. Therefore, if earnings continue to grow as they have been, I expect management to continue hiking the dividend. Over the past 20 years, the dividend has grown by 10% annually.

And when we take that into consideration, the math we did regarding investing in a RRSP goes in even more in your favour. The more shares you amass today, the more dividends you'll get when the company boosts the distribution, thus allowing you to reinvest and buy even greater amounts. Deferring taxes is important when building a portfolio. Do it with Toronto-Dominion Bank.

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Date
2025/08/15
Date Created
2017/11/17
Author
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