Running Out of Time for RRSP Contributions? Buy Toronto-Dominion Bank

Description

Time is running out to invest money in your RRSP for 2017. You should be looking to put money away, so you can reduce your tax bill as much as possible, while also saving for your retirement. But what companies should you be putting into your retirement account?

One fantastic option is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). In my opinion, this is the top bank on the market for a variety of reasons. And because banks are an integral part of any economy, adding this bank to your retirement account is a smart decision. But is it really all that important to invest through a RRSP?

Here's some math: let's say you buy 500 shares of TD, which means your portfolio is worth $36,985. Every quarter, the company pays a dividend of $0.60 per share, so you earn $300 per quarter, or $1,200 per year. After your hypothetical 38% tax rate, you're left with $744 to invest with. At current prices, you can get 10 new shares of TD, which adds an additional $24 per year in dividends.

But what if you had put that into a RRSP that you don't pay taxes on until you start pulling money out? You'd have that original $1,200 to buy shares. You'd be able to buy a little over 16 shares instead of 10. That adds $14.40 in dividends, so you'd make $38.4 rather than $24. It might not sound like a lot, but extrapolate that over 30 or 40 years, and those small amounts add up.

Ultimately, you allow your portfolio to build tax free without government interference.

There are a few reasons to buy TD.

First, the bank is going to benefit as interest rates increase. If you're a borrower on a variable rate, you're going to see your interest payments increase. And for the bank, the spread between what it pays depositors for money and what it can charge for interest will increase, providing greater margins for the bank.

We can see this in TD's Q4 2017 earnings results. In Q4, it earned $5.33 billion in net interest income. In Q3, that number was $5.27 billion. In the full year, it earned $20.847 billion in net interest income versus $19.9 billion in the previous year. Obviously, it has been making more loans, but it's also earning more on those loans.

The second reason I like TD is because it is a great dividend stock. The company currently yields 3.24%, which is good for $0.60. But what makes TD particularly exciting is that the company has a reputation for increasing the dividend. And with earnings only a few days away, I expect there to be news of a new dividend increase.

With its exposure to the U.S. market and strong retail business, I see little reason why TD won't continue to grow in the coming years. With that, I think you should be looking to invest in TD with an RRSP contribution.

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