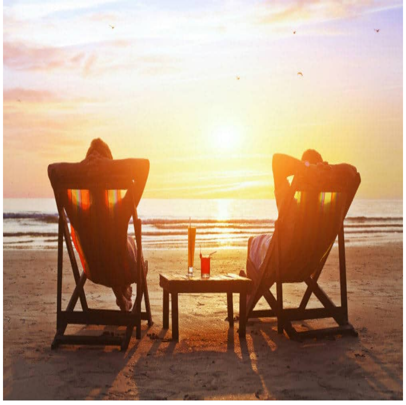

Prepare for an Amazing Retirement by Maximizing Your RRSP

Description

It pays to maximize stock allocation throughout all of your accounts. Placing certain equities in a taxable or registered account can make a big difference in your returns over time. Even within registered accounts, both the TFSA and RRSP have different attributes that can be exploited to best position a portfolio for maximum returns.

The RRSP account is largely the same as the TFSA except for a few important details. One major difference is that this is the one account where investors can put their U.S. dividend-paying stocks and receive the entire dividend. As a registered retirement account, Canada has a tax treaty with the United States, allowing Canadians to fully collect their U.S. dividends tax-free. No other account, not even the TFSA, allows this to happen.

For this reason, I believe the primary use for this account should be to hold U.S. dividend-paying companies such as **Johnson and Johnson** (NYSE:JNJ). JNJ has an excellent balance sheet, a 2.68% dividend, which it has increased for more than half a century, and is extremely diversified. Its products are in almost every household. It also has an excellent pharmaceutical business that has been producing excellent returns for the company over the past several years.

If you are interested in tech for this account, old tech companies like **Cisco Systems** (NASDAQ:CSCO) would be good additions to your retirement dividends. The company pays a growing 2.81% yield, has a tonne of cash, and has excellent free cash flow.

Of course, you can still purchase Canadian stocks, but try to focus on companies that pay distributions rather than dividends. This includes REITs and some limited partnerships. **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP) is one Canadian holding that many investors may own for its healthy distribution of over 6%. However, because of its complicated structure, the distribution is rather complicated, consisting of capital gains, foreign income, and interest. Holding it in a registered account such as an RRSP can alleviate some tax headaches

These companies are not going to grow at a crazy rate, but they do give you excellent USD dividends that are completely tax-free. Ideally, an investor would not sell or withdraw investments for decades, keeping the dividends reinvested and tax sheltered for decades. Over this time, an investor would be able to compound significantly more tax-sheltered U.S. dividends that would not be withdrawn until much further down the road.

Another advantage to holding U.S. dividend-paying stocks in your RRSP is that there is a lot more contribution room available to investors than the TFSA. The TFSA is still only approaching $60,000, as opposed to the RRSP, where investors could potentially invest hundreds of thousands of dollars depending on their income and years worked. The extra room gives you plenty of space to diversify your U.S. holdings in a tax-efficient manner.

This strategy works best if you have already maximized contributions to your registered accounts. Be aware, though, of the fact that you should not withdraw money from your RRSP until retirement. If you withdraw early, you will be taxed on it as income. Save this money to withdraw from your account when you are entering your retirement and your income is lower. This is, after all, the intended purpose of this account.

The RRSP provides an excellent opportunity to reduce home bias — the tendency of investors to invest in companies they are familiar with. Remember to consult your accountant and financial advisor to make sure that this tax strategy is appropriate for you.

CATEGORY

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

TICKERS GLOBAL

1. NASDAQ:CSCO (Cisco Systems Inc.)
2. NYSE:BEP (Brookfield Renewable Partners L.P.)
3. NYSE:JNJ (Johnson & Johnson)
4. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

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