



RRSP Investors: Here's Why an All-Banking RRSP Can Work for You

Description

Back in the early spring I'd discussed why investors should focus on [making the most out of their RRSPs](#) in 2019. Central banks have turned dovish in response to domestic and global economic headwinds. It's therefore a great time to revisit investment strategies this summer.

Bond yields cratered in the spring, which should put renewed focus on income-yielding equities. An all-banking RRSP may seem like a rigid proposition, but Canada's top financial institutions all boast considerable diversification. Today I want to go over a few reasons why stashing only bank stocks in your retirement portfolio can be a winning strategy.

Safe, steady profit machines

There is some anxiety surrounding Canada's top financial institutions, especially after famed short-seller Steve Eisman announced that he was [targeting top banks](#). The Canadian energy sector is facing consistent headwinds and housing has cooled substantially due to new regulations. Fortunately, the latter sector continues to be propped up by low supply and high immigration levels into Canada's metropolitan areas.

Royal Bank ([TSX:RY](#))([NYSE:RY](#)) is not just the largest financial institution in Canada, but also one of the largest banks in the world. Domestic and global headwinds have had an impact, but Royal Bank continues to churn out record profits on the back of improved margins and strong loan and deposit volumes. It has managed to improve its housing segment in comparison to some of its top competitors over the past two years.

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) does not have the domestic or global punch of Royal Bank, but it does boast a strong footprint in the United States. This has propelled growth at BMO in recent years even as profit in its Canadian segments slowed. Its footprint south of the border boosts BMO's moat and make it a nice target for Foolish investors on the hunt for diversification from their financials holdings.

A tasty blend of growth and income

This factor should stand out as the biggest selling point for RRSP investors.

Royal Bank has averaged annual returns of 11% over the past decade. BMO stock has posted 10% average returns over this same period. These are solid marks, but the bank is still outpaced by the **BMO S&P 500 ETF (TSX:ZSP)**, which has returned 18% annual since its inception in 2013. Fortunately, banks also offer dividends to shareholders.

Royal Bank recently increased its quarterly dividend payout to \$1.02 per share, which represents a 3.9% yield as of this writing. The bank has achieved dividend growth for eight consecutive years.

In its second-quarter report, BMO announced a dividend increase of 7% from the prior year to \$1.03 per share. This represents an attractive 4.1% yield as of this writing. BMO has achieved dividend growth for seven consecutive years.

Building an all-banking RRSP this summer

RRSP investors who are mulling over this strategy should look to employ dollar cost averaging. We sit in the late stages of a long bull market. Valuations are high even if bank stocks have let up in recent months.

CATEGORY

1. Bank Stocks
2. Investing

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:BMO (Bank Of Montreal)
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