3 Stocks to Anchor a New RRSP Portfolio

Description

Canadian savers are taking advantage of their RRSP contribution room to set funds aside for the golden years while reducing their current tax bills.

The RRSP has been around for a long time, and although the TFSA has also become very popular, Canadians who are in higher income brackets are still getting great RRSP benefits.

The limit increases every year by 18% of the previous year's earned income to a current maximum of $26,500. Contributions can be used to reduce your taxable income for the related year, which keeps more money in your pocket today when the buying power of the dollars is greater than it will be when you pull the funds out later in life and pay the deferred tax.

Ideally, you will be able to plan your retirement income stream in a way that results in your marginal tax rate being lower than when you make the initial contributions. If not, it means things have gone pretty well in the subsequent years.

Investors can hold a number of assets in their RRSP accounts, including cash, GICs, and shares of companies. One popular strategy for building long-term growth involves buying dividend stocks and using the distributions to acquire more shares. This taps the power of compounding and can turn small initial savings into a large retirement fund over many years.

Let's take a look at three stocks that might be interesting picks today.

Nutrien

Nutrien (TSX:NTR)(NYSE:NTR) is the planet's leading supplier of potash, which is a crop nutrient used by growers around the world to improve crop yields.

This is a core product for farmers today and will remain essential for decades to come as urban sprawl reduces farmland and a rising global population puts pressure on food producers to increase output. The number of people on the planet is expected to jump from an estimated 7.7 billion in 2019 to 10 billion by 2050.

Nutrien makes good money right now at historically low commodity prices. The board raised the dividend from US$0.40 to $0.45 per share in the past year, and investors should see steady payout increases continue as demand improves and prices recover after their recent slump.

The stock appears cheap today, and investors can pick up a 3.6% yield.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is an attractive pick to benefit from long-term growth in the Canadian and U.S. economies. The bank's American operations account for more than 30% of total profits, and that should expand in the coming decades.

TD's focus on retail banking activities tends to make it less risky than some of its peers. In addition, the company has one of the best dividend-growth track records in the TSX Index. TD has increased its dividend by a compound annual rate of better than 11% over the past two decades.

The stock currently provides a yield of 4%.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) owns natural gas distribution, power generation, and electric transmission businesses in Canada and the United States. The majority for the revenue comes from regulated assets, meaning the cash flow stream should be predictable and reliable.

Strategic acquisitions and internal development projects have driven growth to date. Consolidation in the utility sector is expected to continue, and Fortis should be a key player in the coming decades.

In the near term, the current five-year capital program will see management spend more than $17 billion through 2023 on projects that should drive adequate revenue growth to support average dividend increases of 6% per year.

The board has raised the payout every year for more than four decades.

The bottom line

Nutrien, TD, and Fortis should all be solid dividend-growth picks to start a new RRSP portfolio.

If you only buy one, I would probably make Nutrien the first choice today. The stock appears oversold and the company has the potential to generate significant free cash flow for decades.

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2. NYSE:NTR (Nutrien)
3. NYSE:TD (The Toronto-Dominion Bank)
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