RRSP Users: 1 Dividend Stock With a Formidable 12.95% Yield

Description

The Registered Retirement Savings Plan (RRSP) is yours for the taking. You should get the most from your RRSP and not squander the opportunity to live in abundance when you retire.

You can hold savings and investment assets in your RRSP. The Canadian government introduced the RRSP in 1957 to encourage employees and self-employed individuals to save for retirement. Whatever you contribute to your RRSP is deductible from total income.

It also reduces the year's income tax payable when you claim your contributions. The income you will derive from interest, dividends, and gains from other assets housed in the RRSP are non-taxable. But the amount you withdraw is taxed as income.

Start early

If you're setting your sights on retirement, do not procrastinate. Ideally, your planning should start 20 or 30 years before retirement. The sooner you can make RRSP contributions, the wealthier you'll be by the time you officially retire.

Pay it forward

As much as possible, don't miss out on your RRSP contributions. The RRSP works on a tax-deferred basis. If you're unable to make a one-time, lump-sum RRSP contribution at the start of the year, then contribute monthly. It's just as potent on a monthly mode.

Build wealth

Since your objective is to build a fund that could sustain your retirement lifestyle, go for investments that grow your savings at a faster pace. Don't limit yourself to fixed income like bonds and other guaranteed investment certificates (GIC). The income from these investments exposes you to inflation risk.

Invest in a high-paying dividend stock like **American Hotel** (TSX:HOT.UN). This is a real estate investment trust (REIT) stock that pays a 12.95% annual dividend. You might be tempted to invest in a U.S. stock like **FS KKR Capital**, which has a higher yield of 13.4%.

However, you'll be at a disadvantage, despite the juicier offer. The IRS will tax you 15% on the dividends received from the U.S. stock or other foreign equities. Anyway, investing in American Hotel is like investing in a U.S. stock. The hotel real estate properties of this REIT are located in the U.S.

In case you don't know, REIT stocks in general are the best assets for long-term holds. Aside from paying high yields, your investment is shielded from a recession and protected from inflation. For an investment of less than $7 per share in American Hotel, you become a co-landlord in 112 premium-branded, select-service hotels in secondary U.S. markets that are owned by American Hotel.

When you take a position in this REIT stock, your investment could double in 5.56 years and every 5.56 years after that. By the time you reach a 25-year period, you'd be more prosperous than those who started late.

Retire in style

As a final reminder, resist the temptation of withdrawing from your RRSP before retirement. Any withdrawal is levied a withholding tax, and the amount that is removed can't be returned to restore your contribution room.

By staying invested in American Hotel and not dipping in your RRSP, you can retire in style 20 or 30 years from now.

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