RRSP Investors: Should You Buy Bank of Nova Scotia (TSX:BNS) or Suncor (TSX:SU) Stock Today?

Description

Canadians are using self-directed RRSP accounts to set aside funds for their golden years.

The RRSP is a useful tool in the broader retirement-planning process. Investors can contribute up to 18% of their earned income to a maximum of $26,500 for 2019.

For most people, the RRSP contribution space they generate each year is higher than the $6,000 allocated for TFSA.

Investors who find themselves in the highest tax brackets might want to use RRSP room first, given the benefit of having their taxable income reduced by the amount of the contribution. Ideally, the tax bracket you are in when you remove the funds will be lower than when you made the contributions.

The RRSP is also helpful for people who might be tempted to tap their savings for a holiday or a new car. The withholding tax placed on RRSP withdrawals serves as a good incentive to leave the funds invested.

Where should you invest?

A balanced portfolio is always recommended. In Canada, energy companies and banks make up a large part of the Canadian market.

Let’s take a look at **Suncor Energy** (TSX:SU)(NYSE:SU) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) to see if one deserves to be on your buy list.

Suncor

Suncor is Canada’s largest integrated energy company with business lines that run the full spectrum of the value chain.

The production operations include oil sands and offshore facilities and make up the bulk of the revenue stream. When oil prices fall, margins in the upstream operations get squeezed and the stock tends to slide.

The refining and retail businesses help balance out market volatility. Input costs fall when oil prices dip. This can lead to large profit margins on the finished products.

Suncor has a strong balance sheet and takes advantage of difficult times to add resources and production capacity. The new assets then contribute to higher revenue and stronger profits when oil prices recover.

The stock currently trades at $39.50 per share, which is well below the $55 it reached in the summer of 2018. Oil prices are in a slump right now, but that could reverse course if the market sees another major supply disruption. A significant trade deals between the United States and China could also boost oil prices.

In the meantime, investors can collect a solid 4.25% dividend yield.

Bank of Nova Scotia

Bank of Nova Scotia is Canada’s third-largest bank but is certainly not small. The company has a market capitalization of $92 billion and employs nearly 100,000 people worldwide.

The largest growth opportunity lies in the company’s international operations that are primarily located in Latin America. Bank of Nova Scotia has invested billion of dollars to buy banking operations in Mexico, Peru, Chile, and Colombia over the past decade. These countries are members of the Pacific Alliance trade bloc and represent a combined market of more than 230 million consumers.

As middle-class wealth expands in the region, Bank of Nova Scotia should see an increase in demand for its loans and investment products. The international operations already account for about a third of total profits and that should expand in the coming decades.

The stock isn’t as cheap as it was a month ago when it dipped below $68 per share, but it still appears attractive at the current price of $76.

Investors who buy today can get a 4.75% yield.

Is one a better bet?

Suncor and Bank of Nova Scotia are strong companies that pay good dividends and continue to grow. Both stocks should be solid picks for a self-directed RRSP.

That said, Suncor appears oversold today and likely offers better dividend-growth potential in the medium term. As such, I would probably go with the energy giant as the first choice.

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