Self-Directed RRSP Investors: A Top Dividend Stock to Build Pension Wealth

Description

Canadians are using a number of tools, including Registered Retirement Savings Plans (RRSPs), to help them meet their income goals in retirement.

The RRSP has a long history in Canada and continues to be an important savings vehicle for investors. The program began in 1957 as a means to help people who might not have company pensions. The original contribution limit was 10% of income from the previous year and unused contribution space couldn't be carried forward.

Over the past six decades, the government tweaked the rules to make the RRSP more appealing. Today, investors can contribute 18% of last year's earnings up to a maximum of $26,500, and any unused contribution room can be carried into future years.

Contributions to the RRSP can be used to reduce taxable income in the allocated year. Once the contributions are made, any interest, dividends, or capital gains generated are protected from the tax authorities, while the funds remain inside the RRSP account. Withdrawals are taxed at your marginal tax rate for that year.

Ideally, the contributions are made at a point in your career when your tax rate is higher than it will be when the money is removed in retirement.

Let's take a look at a top dividend stock that might be an interesting pick to get you started.

BMO

Bank of Montreal (TSX:BMO)(NYSE:BMO) has never missed a dividend payment in the past 190 years.

The company has the longest dividend history of all the big Canadian banks, and investors should feel comfortable owning the stocks for decades.

Bank of Montreal has a market capitalization of $63 billion. This puts it in fourth spot in the Canadian market. The bank is best known for the quality of its commercial banking operation in both Canada and the United States. Bank of Montreal’s personal banking, wealth management, and capital markets segments round out a balanced revenue stream.

The company reported fiscal Q3 2019 adjusted earnings of $1.58 billion, representing a 1% increase over the same quarter last year. Revenue increased 5%, with solid performances from both personal and commercial banking an the capital markets group. Return on equity remains solid at 13.2%.

Provisions for credit losses increased on a year-over-year basis, albeit from a low level. Overall credit quality across the loan base remains strong, but the trend is worth watching in the coming quarters to see if more people and businesses are getting into trouble.

The American division, BMO Harris Bank, has grown over the past 30 years and now includes more than 500 branches. The U.S. operations contribute about a third of total profits, providing the bank with a nice hedge against any potential downturn in Canada.

Bank of Montreal is a good stock to own to get U.S. exposure through a Canadian company.

With a CET1 ratio of 11.4%, Bank of Montreal remains well capitalized to ride out the next downturn. Some pundits point to high consumer debt levels and expensive house prices in Canada as potential threats. Bank of Montreal’s mortgage portfolio is smaller than some of its peers on a relative basis, so the risk on this front should be lower.

Falling bond yields and a halt to rate hikes in Canada should help reduce default threats in the medium term.

The bottom line

Given the current market conditions, the stock trades at a reasonable 10.5 times trailing earnings, and investors who buy today can pick up a dividend yield of 4.2%.

If you are searching for a reliable dividend stock to put in your self-directed RRSP portfolio, Bank of Montreal should be a solid buy-and-hold pick right now.

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