3 Perfect Long-Term Stocks for Your Kids' RESP

Description

Putting cash away for your children and their future education is one of the best gifts you can give. Graduating university without crippling loans is enough to put anyone on the right track.

Some folks hate Registered Education Savings Plans (RESPs), saying they don't offer much flexibility if your offspring decide against post-secondary education. But the advantages far outweigh that one disadvantage. Remember, RESPs come with the education savings grant, which adds 20% to any RESP contributions (up to $2,500 worth of contributions).

If free money and giving your kids a head-start in life isn't enough motivation, RESPs are also flexible enough that you can convert them into RRSPs if your child decides against university. You'll just have to give the savings grant back.

The only thing left to do is deciding what's a suitable investment for that precious cash. I have a few ideas, long-term stocks that would make any RESP look good.

Fortis

An RESP is not a place to take huge investing risks. You want to aim for singles, not home runs.

Fortis (TSX:FTS)(NYSE:FTS) shows us you can still get stellar investment returns while putting your cash to work in a low-risk stock. The power and natural gas utility offers stability, solid growth potential, and, perhaps most importantly, a long history of dividend growth.

Over the last 15 years, Fortis shares have returned an outstanding 11.84% annually if an investor reinvested dividends. That's good enough to turn a $5,000 initial investment into one worth nearly $27,000. Just one or two long-term investments that good will transform a mediocre RESP into a great one.

The company's dividend has marched steadily higher over the last 15 years, too. The payout has nearly quadrupled in that time, steadily churning out cash that could be reinvested in new opportunities. And the stock is low risk enough that you can continue to hold it as post-secondary gets closer and closer.

Scotiabank

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is still my favourite bank stock. I think today is a terrific time to buy shares for the long term.

It's well known that Canadian banking is a wonderful business. The top five banks in this country own the market, which gives them huge advantages over any potential competition. This edge is well known, yet many investors choose to ignore it simply because it's so popular. This is a poor idea.

What really excites me about Scotiabank's long-term growth is its Latin American assets. Some 30% of its earnings come from places like Mexico, Peru, Colombia, and Chile. The region offers various advantages compared to Canada, including better economic growth, higher net interest margins, and a more fragmented banking system, which is perfect for acquisitions.

The bank also offers a succulent 4.8% dividend — a payout that has been hiked each year for nearly a decade. With a 50% payout ratio, you'll sleep well at night knowing your RESP is at little risk of a dividend cut.

CAPREIT

Canadian Apartment Properties REIT (TSX:CAR.UN) is one of Canada's largest owners of residential property. Its portfolio consists of nearly 50,000 apartments and more than 11,000 manufactured home sites located in or near major centres across Canada. The company also indirectly owns portfolios of apartments in the Netherlands and Ireland.

Residential real estate is well regarded by investors because it's recession resistant, it offers plenty of steady cash flow, and a company like CAPREIT can grow forever by acquiring existing assets or building their own.

The stock has quietly been one of the best-performing names on the Toronto Stock Exchange over the last 15 years, with shares increasing an average of 15.7% annually since 2004. That's enough to turn a $5,000 investment into something worth more than $44,000, including reinvested dividends.

One criticism of the company is, it doesn't pay much of a dividend. The yield is a paltry 2.5% or about half what the average REIT offers. But the company instead chooses to plough much of its earnings back into more growth, which is ultimately better for shareholders.

The bottom line

There are few investments more important than your kids' RESP. So, don't mess around; put that cash into great companies like Fortis, Bank of Nova Scotia, and Canadian Apartment REIT. Your children — and your wallet — will thank you when university time comes.

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2. NYSE:FTS (Fortis Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
5. TSX:FTS (Fortis Inc.)

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