



## Young Investors: Should Bank of Montreal (TSX:BMO) Stock Be in Your RRSP?

### Description

Canadians are starting to line up 2020 stock picks for their self-directed RRSP portfolios.

The [RRSP](#) is a great option for setting cash aside for the golden years. The contributions made to the plan can be used to reduce taxable income, effectively cutting the net out-of-pocket investment. Depending on your tax bracket, the reduction could have a meaningful impact on the amount you would have paid the CRA.

For example, if you're at a 40% marginal tax rate, a \$10,000 RRSP contribution would reduce your taxes by \$4,000.

You have to pay tax on the funds when they are withdrawn, but the goal is to pull the money at a time when you might be in a lower tax bracket than when you made the contribution.

People who decide to retire early might use RRSP withdrawals to fund their living expenses before they start collecting a company pension, CPP, or Old Age Security.

The RRSP is also useful for people who might be tempted to use the savings for discretionary purchases, like a new fishing boat. If the money is held in a TFSA, it is easily accessed without any penalty.

In the case of the RRSP, the rules vary by province, but there is a sizeable withholding tax that kicks in when you decide to cash out the funds.

New home buyers, however, are allowed to borrow from their RRSPs to make a down payment on a property. This is helpful, especially with house prices rising so rapidly in recent years.

Dividend stocks have long-been popular picks for buy-and-hold RRSP investors, which should continue to be the case.

Let's take a look at **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) to see if it deserves to be on your 2020 RRSP [buy list](#).

## Dividends

Bank of Montreal paid its first dividend in 1829 and has now given shareholders a slice of the profits annually for 190 years. That's a fantastic track record given all the turbulent times the economy has endured in the past century.

The board does a good job of raising the dividend in line with earnings-per-share growth and is careful to keep the distribution within the targeted payout ratio of 40-50%.

At the time of writing, the dividend provides a yield of 4%.

## Diversification

Bank of Montreal has managed to evolve with changing economic times and markets.

The company is known for having a strong commercial banking group and its balanced revenue stream across the personal banking, wealth management, and capital markets pillars make it a steady pick among the big Canadian banks.

Bank of Montreal also has a large presence in the United States with its BMO Harris Bank division, which serves customers through roughly 500 branches.

The company has expanded the U.S. group over the past 30 years through strategic acquisitions and more deals could be on the way down the road.

The U.S. accounts for more than 30% of Bank of Montreal's adjusted net income. As a result, investors can use the bank to get some decent exposure to the Canadian economy.

## Should you buy?

Bank of Montreal is well capitalized with a CET1 ratio of 11.4%, meaning that it should be able to comfortably ride out the next downturn.

The stock appears cheap right now, trading at less than 11 times trailing earnings, so it might be a good time to consider Canada's longest-running dividend payer for a self-directed RRSP.

### CATEGORY

1. Bank Stocks
2. Investing

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2. TSX:BMO (Bank Of Montreal)

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aswalker

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