RRSP Investors: How to Turn $10,000 Into a $240,000 Pension Fund

Description

Canadian investors can use their Registered Retirement Savings Plan (RRSP) to build a self-directed pension portfolio to help fund living expenses in the golden years.

The RRSP is particularly attractive for Canadians who are in higher marginal tax brackets, as the contributions can be used to reduce taxable income for the designated year.

With some careful planning, the funds can be withdrawn at a lower personal tax rate down the road. For example, people who retire early or decide to delay taking CPP and OAS to age 70 might pull funds from RRSPs in the early retirement years.

In the meantime, the funds can be invested and grow tax free.

GICs and government bonds are the safest investments to protect your principal, but interest rates and bond yields are at such low levels that the returns barely cover inflation.

As a result, many RRSP investors are turning to dividend stocks. The strategy has proven to be a successful one over the years, especially when the distributions are invested in new shares to take advantage of the power of compounding.

Let's take a look at a top Canadian dividend stock that appears cheap right now and might be an interesting pick for your RRSP portfolio.

Suncor

Suncor Energy (TSX:SU)(NYSE:SU) is not normally cited as a top dividend pick, but it probably deserves more respect in that regard.

The company raised the distribution by nearly 17% in 2019 and has increased the payout in each of the past 17 years. Investors will likely see another generous hike in 2020.

Oil prices are pulling back a bit after the latest spike, but moved steadily higher through the last three months of 2019. That should bode well for the Q4 2019 numbers, and Suncor's share price might get a nice boost when the results are announced.

Suncor should benefit from the increased access to the United States and international markets expected to come from the completion of the Trans Mountain and Keystone XL pipelines. Resistance to the major projects is ongoing, but they appear to be slowly moving toward the building of the projects.

During periods of weaker oil prices, Suncor's refining and retail divisions provide a good revenue hedge. In fact, lower input costs can result in big margins on the sale of the end products, including jet fuel, diesel fuel, gasoline, and asphalt.

Suncor has a strong balance sheet, which is somewhat unique in the oil patch these days, giving it the capacity to make strategic acquisitions when attractive opportunities arise. Adding cheap resources and low-cost production during difficult times can result in a significant boost to revenue and profits when oil prices recover.

Oil remains volatile, but the strengthening trend in the past few months could continue through 2020. Any extended military conflict in the Middle East would likely send oil prices soaring.

Suncor trades at $44 per share compared to the 2018 high of $55, so there is decent upside potential on higher oil prices. In the meantime, the current dividend provides a yield of 3.8%.

Returns?

Long-term investors have done well with the stock. A $10,000 investment in Suncor 24 years ago would be worth $240,000 today with the dividends reinvested.

The bottom line

The strategy of owning quality dividend stocks and using the distributions to buy new shares is a proven one. Suncor should be an attractive pick to anchor a balanced portfolio inside a self-directed RRSP.

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