RRSP Investors: A Top Canadian Stock for Building Retirement Wealth

Description

Canadian savers are getting into RRSP mode as the March 2 deadline for making contributions for the 2019 tax year approaches.

The RRSP is one part of the overall retirement planning toolkit that investors have to set aside adequate cash to cover their expected expenses in the golden years.

Contributions to the RRSP can be used to reduce taxable income for the designated year. This is attractive for Canadians who find themselves in the higher marginal tax brackets.

The maximum contribution level is quite generous. Canadians have RRSP deductions limits equal to 18% of earned income to a maximum level.

For 2020, the contribution limit is $27,230, which means you can earn income of just over $151,000 that would qualify.

Company pension contributions count toward the RRSP limit, so you have to be careful when determining how much space you actually have for the year. Fortunately, unused RRSP room can be carried forward, so many people are able to reduce their taxable income in a bountiful year provided they have adequate RRSP deductions available.

On the savings side, investments can grow tax-free when held inside the RRSP and taxes are paid only when the money is pulled out of the plan. Strategic investors try to set up the withdrawals so that they remove the funds at a lower tax bracket than when the contributions were initially made.

Where to invest?

Reinvesting distributions from reliable dividend stocks can result in significant wealth generation over time. Let’s take a look at one example of a top dividend stock that’s delivered strong returns and should continue to be an attractive pick for a diversified RRSP portfolio.

Royal Bank

Royal Bank of Canada (TSX:RY)(NYSE:RY) is one of the top 15 banks globally and is Canada's largest business with a market capitalization of $150 billion.

The bank has paid a dividend since 1870, so investors should be comfortable with the quality of the business and Royal Bank's ability to change with the times to remain competitive.

The bank is investing heavily to boost its digital capabilities and more customers are interacting through the mobile and digital platforms each year.

Royal Bank gets its revenue from a number of segments in the banking industry, including personal banking, commercial banking, capital markets, wealth management, insurance, and investor and treasury services.

The US$5 billion takeover of California-based City National in 2015 bumped up the company's presence in the American market and the U.S. now accounts for roughly 17% of adjusted earnings.

Falling interest rates can put pressure on net interest margins and a downturn in the economy would likely push up defaults on business and consumer loans. That said, Royal Bank remains a very profitable company and is well capitalized to ride out the next downturn.

The dividend should continue to grow in line with anticipated average earnings-per-share gains of at least 7%. Investors who buy the stock today can pick up a yield of 4%.

A $20,000 investment in Royal Bank 25 years ago would be worth about $685,000 today with the dividends reinvested.

The bottom line

There is no guarantee Royal Bank will deliver the same gains in the next 25 years but the stock should still be an attractive pick for a balanced RRSP portfolio.

The **TSX Index** is home to many top stocks that have made long-term investors quite rich.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider

2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/08/25
Date Created
2020/01/31
Author
aswalker