RRSP Season Is Right Around the Corner: Here's How to Invest Your Contribution!

Description

Did you know that you still have nearly a month to make your RRSP contributions for 2019?

That's right. You can still make RRSP contributions for the previous year up until March 2nd. It might seem strange, but remember that most Canadians file their income taxes in April, so the cutoff date lines up nicely with tax season. Because of this, we could call late February and early March "RRSP season," a time to get your last RRSP contributions in before you file your taxes.

This year, making your RRSP contributions may be more important than in any prior year. As part of CPP enhancement, Canadians' premiums are set to increase, and a nice RRSP deposit is the perfect way to offset the higher tax bill. However, making a contribution is only half the battle. Once you've transferred the money, the next step is to decide what you're going to invest in. Simply holding cash in your RRSP gives you a tax deduction, but you need investments to realize the other big benefit: tax-free returns.

Long-term, income-producing investments are best for RRSPs

By far the best types of investments for RRSPs are long-term income-producing investments, like dividend stocks/ETFs, bonds and bond funds. There are three reasons for this:

1. RRSPs are intended for retirement, and retirees require steady and predictable income.
2. RRSPs defer taxes on dividends and interest as well as on capital gains.
3. The average retiree does not have as long a time horizon ahead of them as a younger investor, who can afford to gamble on speculative stocks and wait out market downturns.

All three of these factors point toward a long-term, dividend-focused strategy for RRSPs. With that established, let's take a look at a stock that would make a worthy addition to a dividend-focused RRSP portfolio.

One solid example

Forti (TSX:FTS)(NYSE:FTS) stock is a perfect RRSP dividend play. Boasting a 3.3% yield, strong historical returns, and 46 consecutive years of dividend increases, it's one of the most dependable dividend stocks on the TSX.

What makes Fortis such a dependable income investment?

It comes down to a few factors, all of which add up to one of the best dividend-growth plays on the TSX.

First, like all utilities, Fortis has a uniquely recession-resistant revenue stream, owing to the indispensable nature of its services. This provides steady earnings, even in bear markets — such as the 2008/2009 recession, in which Fortis actually grew its profits.

Second, the company is unusually growth oriented for a utility, having committed $18.3 billion in capital spending over the next five years.

Finally, most of the company's utilities are regulated, providing high barriers to entry and a solid economic moat.

The three factors above make Fortis a stock worth considering for any Canadian retiree. However, the stock is hardly risk-free: it does have very a very high debt level, and more debt than equity. Especially if the $18.3 billion in planned capital expenditures don't generate adequate returns, or if interest rates rise, this company could face trouble. However, it's a worthy addition to a highly diversified income portfolio that spreads risk across many different stocks.

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