



## Stocks vs. Mutual Funds: Which 1 Should You Choose for the 2020 RRSP Deadline?

### Description

The end of February 2020 is almost upon us, which means Canadians are on their toes so they can collect the cash they need to contribute to their Registered Retirement Savings Plans (RRSPs).

The [deadline for the RRSP this year is March 2](#). Compared to 2019, you have two more days to contribute to your RRSP so that it can count against your taxes from 2019. I recommend doing all your homework immediately so you don't delay making your contribution this year.

One of the ways you can minimize your tax bill today is to maximize your RRSP contribution. The maximum contribution you can make to your RRSP is 18% of your earnings in 2019 up to the limit of \$26,500. The limit will increase to \$27,000 for the 2020 tax year.

Once you contribute, you need to decide on how you invest that cash. You might be struggling to determine if you should use that cash to invest in stocks or mutual funds.

I will discuss the prospects of investing in mutual funds and a stock like the **National Bank of Canada (TSX:NA)**, so you can make the best decision before March 2, 2020.

### Mutual funds

Investing in mutual funds incurs direct or indirect fees expenses for Canadian investors. The fees you pay reduce the overall return you can get on your investment in a mutual fund.

Mutual funds rely on the performance depends on its underlying holdings. The diversity of the funds can serve as a decent way to provide it a sense of security.

Perhaps, a major problem with mutual funds is its ability to provide you with maximum returns. One of the costs associated with mutual funds is the Management Expense Ratio (MER), which consists of management fees and operating expenses.

The fund itself pays the MER as an annual percentage of the total value of the fund. The MER can range anywhere between 1% and 3%. While you're not paying the MER yourself, the expense does cut into the total return the funds can provide you. Over time, these fees can add up.

## Stocks

Investing in stocks, on the other hand, does not entail the same expenses mutual funds can have. Stocks from the banking sector like Canada's Big Five have been doing well over the years.

The Big Five are beginning to struggle. Canada's major banks are busy raising loan-loss reserves and making massive restructuring charges right now.

National Bank is an [underrated bank](#) that's busy implementing changes to enhance the user experience. It is focusing on transformation using technological advances to serve its customers better.

The bank surprised the industry by stealing the limelight from Canada's Big Five with its Q4 2019 results. The \$24.75 billion market capitalization bank exhibited double-digit increases in its earnings per share and return on equity.

The National Bank is a major player in Canada's wealth management and capital market. Its lower exposure to the mortgage business insulates the National Bank stock from a housing market crash as well. Additionally, a nine-year dividend streak makes the stock a decent option to consider.

## Foolish takeaway

In theory, mutual funds can't provide consistent returns that exceed the performance of the index. Additionally, investors incur reduced profits due to expenses like MER in mutual funds.

Stocks like National Bank don't entail any such charges, however. Rather, it can grow your wealth further through capital gains and dividend income with a juicy dividend yield of 3.85% at writing.

Investing in a stock such as National Bank rather than mutual funds can prove to benefit you more ahead of the RRSP deadline.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)

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