RRSP Wealth: A Cheap Market Crash Stock to Help Canadian Investors Retire Rich

Description

The market crash of 2020 is finally giving Canadian savers a chance to buy top-quality dividend stocks at bargain prices.

RRSP value

Canada created the RRSP in the 1950s as a vehicle to help Canadians without company pensions save money for retirement.

Originally, people could contribute 10% of the previous year's income to a maximum of $2,500. Unused contribution space couldn't be carried forward. Fortunately, the plan changed over the years, giving investors more flexibility.

The allowable contribution amount increased in 1990 to the current level of 18% of income from the previous year, up to a maximum. The limit for 2020 is $27,230. A seven-year carry-forward provision went into effect in 1990, as well.

Later, the government changed to carry-forward rule to allow people to bank unused room for as long as they like. This is helpful for younger savers who believe that they will be in higher tax brackets later in their careers.

Why?

Canadians use contributions to RRSP accounts to reduce taxable income for the relevant year, which provides the best bang for the buck at the highest marginal tax brackets.

The CRA taxes the funds on withdrawal. Ideally, a bit of planning ensures the funds are pulled at a lower tax rate than at the time of contribution.

Cheap stocks

The market crash in the past month reduced the shares price of many top **TSX Index** dividend stocks to levels some pundits are calling an opportunity of a lifetime.

Let's take a look at one top dividend stock that might be an interesting pick right now for a self-directed RRSP portfolio.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is Canada's second-largest bank by market capitalization.

Pundits generally consider TD to be less risky than its peers due to its limited direct exposure to the energy sector. It also relies less on volatile capital markets activities. TD mainly focuses on retail banking.

This doesn't mean the bank is immune to the economic downturn caused by the coronavirus outbreak, however.

TD finished fiscal Q1 2020 with $293 billion in Canadian residential mortgages. Uninsured loans represented 70% of the portfolio. A prolonged spike in unemployment would put the housing market at risk of a meltdown. Canadians are already carrying record levels of debt and one million people just filed for unemployment insurance.

In the event that defaults surge and a flood of homes and condos hits the markets, property prices could tank.

The Canadian government is taking steps to mitigate the risks. The CMHC recently announced plans to buy $150 billion in insured mortgages from the banks, providing TD and its peers with added liquidity to continue lending to consumers and businesses.

The government said that it will now subsidize up to 75% of wages for impacted workers. In addition, businesses are getting tax relief and access to emergency loans. The measures should reduce the number of layoffs and help keep businesses alive until the worst of the outbreak is over and people can go back to work.

Opportunity

At the time of writing TD trades at $56 per share, compared to $76 in February. The dividend now offers a yield of 5.6%. Ongoing volatility should be expected, and we could see the stock retest the recent low around $49 per share. However, the stock appears oversold right now and you get paid well to wait for the recovery.

Long-term investors have done well buying TD on major corrections. A $10,000 investment in TD just

20 years ago would be worth more than $55,000 today with the dividends reinvested.

If you have some cash to put to work inside your RRSP, this stock deserves to be on your radar.

The TSX Index has a number of top-quality stocks that appear oversold right now and would be attractive additions for a diversified retirement fund.

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