RRSP: How to Turn $12,000 Into $575,000 for Retirement

Description

March 1 is the 2021 RRSP deadline to make contributions for the 2020 tax year. Investors are now taking a look at their retirement savings and wondering which stocks might be the best buys for a retirement fund this year.

RRSP vs TFSA

Canadian savers ideally max out their RRSP and TFSA contribution limits every year. Not everyone has the cash flow to do that, and choosing between the two options depends on your age and income.

For example, younger investors who will likely earn more money in future years might consider using the TFSA space first and keep the RRSP room for down the road when they are in a higher marginal tax bracket. RRSP contributions reduce taxable income, so you want to get the best tax impact possible. The goal is to pull the money out in retirement when we are potentially in a lower tax bracket than when we made the contributions.

Company pension contributions reduce the RRSP room available each year, so the top up might be a small amount and extra cash could then go into a TFSA. The RRSP limit is 18% of the previous year's income up to a maximum level.

Best stocks for self-directed RRSP investors

The stock market crash in 2020 reminded investors that stocks carry risk. The subsequent rebound also showed that market corrections tend to provide great buying opportunities.

RRSP investments are typically buy-and-hold positions. Market dips offer a chance to add to the portfolio at cheap prices. The best stocks to own for the long haul are typically industry leaders with long track records of dividend growth supported by rising revenue and higher profits. Investors can boost their returns by using the dividends to buy additional shares.

Let's take a look at **Canadian National Railway** (TSX:CNR) (NYSE:CNI) to see why it might be a good pick to start the RRSP portfolio in 2021.

Why CN stock deserves to be on your buy list

CN transports everything from lumber, cars, and finished goods, to crude oil, coal, fertilizer, and grain. These essential items are needed to keep the Canadian and U.S. economies operating efficiently. CN is the only rail carrier in North America with tracks that connect ports on three coasts. This gives the company an important competitive advantage.

CN still has to compete with trucking companies and other rail carriers on some routes. Management makes the capital investments needed to ensure the business has the capacity to meet rising demand. This includes new locomotives, additional rail cars, and track upgrades. The company also makes strategic acquisitions to drive growth.

CN generated $2 billion in free cash flow in the first three quarters of 2020. That's impressive given the challenging economic environment. The dividend should continue to grow at a steady rate. CN raised the payout by a compound annual rate of 16% since it went public.

Investors have enjoyed great returns by holding the stock. A $12,000 RRSP investment in CN 24 years ago would be worth about $575,000 today with the dividends reinvested.

The bottom line on RRSP investing

CN should continue to be an anchor position for RRSP investors. A balanced portfolio is always recommended and the strategy of owning top dividend stocks and using the distributions to buy new shares is a proven one.

The **TSX Index** is home to many high-quality dividend stocks like CN and many still appear reasonably priced right now.

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