2021 RRSP Deadline: 2 Best Stocks to Buy Now

Description

The 2021 RRSP deadline is coming up fast on March 1, 2021, for the 2020 tax year. If you want to reduce your income taxes for the 2020 tax year, act fast and contribute to your RRSP.

If you have funds available in your RRSP, what are the best stocks to buy?

Generally speaking, for all your investments, you would aim for the highest returns while managing risks. Your investments will grow and compound tax-free in your RRSP until withdrawal.

When you withdraw funds from your RRSP, ideally when you retire, the amount will be taxed at a lower tax rate than your marginal tax rate now. So, aim for high returns in your RRSP.

Notably, RRSPs give you a tax advantage in terms of U.S. qualified dividends. Normally, 15% of these foreign dividends are withheld by the U.S., but the withholding tax is exempt in RRSPs. Therefore, if you're buying U.S. stocks that pay nice dividend yields, it would be better to buy them in your RRSP in most cases.

With this backdrop in mind, here are some best stocks you might consider for your long-term RRSP portfolio.

A quality dividend stock for your RRSP

Aerospace and defence stocks like **Lockheed Martin** (NYSE:LMT) have largely declined recently. Since 2020, LMT stock has fallen about 15% and is an undervalued Dividend Aristocrat you can depend on for safe dividend income.

Lockheed Martin's earnings have been highly stable through economic cycles. The dividend stock has increased dividends every year since 2003. Its five-year dividend-growth rate is 9.8%.

The dividend stock last increased its quarterly dividend by 8.3% in September 2020, which is still a good growth rate for a large-cap blue-chip company. The dividend is secured by a payout ratio of about

40%.

Currently, the stock yields 3% and could deliver 12-month returns of about 21% based on its cheap valuation. Given its high-quality earnings, LMT is the type of passive-income investment you can buy at a good valuation and hold forever.

A Canadian growth stock to buy before the RRSP deadline

Other than seeking stable returns from income stocks like Lockheed Martin, investors can diversify their RRSP portfolio into high-growth stocks like **Enghouse Systems** (TSX:ENGH).

Enghouse has historically grown at a superb pace. The +26% correction from the $75 level is an excellent buying opportunity. Despite the selloff, the growth stock has still appreciated at a compound annual growth rate of 23% since 2008.

Enghouse is a diversified software and services company that provides enterprise-oriented software solutions. For example, it offers technology solutions to enable the network and digital transformation for 5G operators. As well, it provides software solutions for transit, supply chain, and public safety companies.

It has been growing organically and by acquisitions. Its five-year earnings-per-share growth rate is +24%, which would make the stock undervalued at about 31 times earnings, assuming the company will be able to resume its normal M&A activities after the pandemic.

Analysts also think the stock is cheap — specifically undervalued by 30%, with a 12-month upside potential of about 44%. Additionally, Enghouse pays a yield of close to 1%. Notably, the tech stock is a Canadian Dividend Aristocrat with a five-year dividend-growth rate of +17%.

The Foolish takeaway

The RRSP can be an important component of your retirement. Take advantage of the tax-deferred growth by contributing to your RRSP regularly as appropriate for your situation. And invest in great businesses like Lockheed and Enghouse to compound your wealth for the long term.

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TICKERS GLOBAL

1. NYSE:LMT (Lockheed Martin Corporation)
2. TSX:ENGH (Enghouse Systems Ltd.)

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