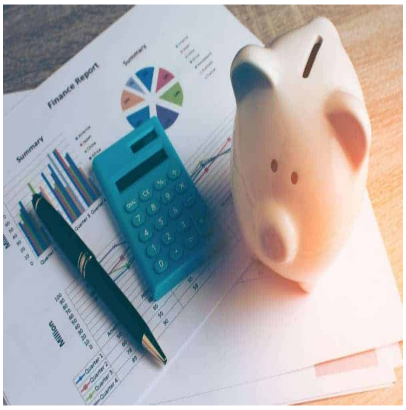

2 Top Canadian Stocks to Start Your RRSP

Description

The RRSP is a fantastic tool for Canadian savers to build a retirement fund that can provide income to supplement government and company pensions.

RRSP benefits

RRSP contributions are used to reduce taxable income in the designated tax year. This has the largest benefit when an investor is in the higher marginal tax brackets. You get to defer the tax you would have paid until the funds are removed. Ideally, a bit of tax planning will result in the cash being taken out of the RRSP at a lower tax bracket. In addition, the money you get to keep as a result of the taxes saved will have much greater buying power today than down the road, so it makes sense to max out RRSP contributions when possible.

Let’s take a look at two top RRSP stocks to put in your self-directed portfolio.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) paid its first dividend in 1829 and has given investors a piece of the profits every year since that date. Reliable dividends are important for RRSP investors who use the payouts to acquire additional shares.

The bank is a good pick to get exposure to both the Canadian and U.S. economic recoveries. Bank of Montreal has a large American presence with a strong commercial banking division. The bank is less exposed to the Canadian housing market than some of its peers, so it might be viewed as a safer pick in the sector if you are of the opinion that a housing crash is on the horizon.

Investors who buy now can pick up a 3.3% dividend yield. Other stocks offer higher yields, and the share price is not cheap after the big run off the 2020 lows, but Bank of Montreal is sitting on significant excess cash that gives it good flexibility to boost dividends, buy back shares, or make a strategic acquisition to drive future growth in the U.S. operations.

Canadian National Railway

CN (TSX:CNR)(NYSE:CNI) is a leading player in the North American rail industry with a unique network of tracks that connects ports on three coasts. The company is trying to buy **Kansas City Southern** in the United States in a move that would add strategic U.S. routes as well as lines in Mexico.

Investors punished the stock in recent months due to the uncertain outcome of the takeover bid, but the pullback in the share price appears overdone. If the deal goes through, CN will become a dominant railroad with a wide competitive moat that would last for decades. Otherwise, the company remains a very profitable player with a strong business that generates significant free cash flow.

CN has a great track record of dividend growth, and long-term holders of the stock have enjoyed fantastic returns. The shares appear undervalued right now, and CN deserves to be a core holding for any RRSP portfolio.

The bottom line

Bank of Montreal and CN are top Canadian companies that deserve to be anchor positions in a diversified RRSP fund. If you only buy one, I would make CN the first pick right now to start your self-directed pension.

CATEGORY

1. Investing

TICKERS GLOBAL

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2. NYSE:CNI (Canadian National Railway Company)
3. TSX:BMO (Bank Of Montreal)
4. TSX:CNR (Canadian National Railway Company)

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