The 3 Best Stocks for Your RRSP

Description

We're getting close to the end of the year. If you haven't made any Registered Retirement Savings Plan (RRSP) contributions for this tax year yet, it's a good time to think about it.

Where should you invest your RRSP funds? In most cases, we contribute to our RRSP and keep the funds in there to grow for many years until retirement. So, we want to invest for the highest risk-adjusted returns. The stock market is the perfect place to find your funds a home, but which stocks should you invest in?

You can also earn stable returns from dividends. That said, potentially, you could make more money from stocks with higher growth. Therefore, you should test the kind of balance (between stable and higher returns) that works for you.

Because of the tax treaty between Canada and our southern neighbour, our RRSPs enjoy no tax withholding on U.S. dividends. As a result, it's a good idea to hold U.S. stocks that pay juicy dividend yields in our RRSPs.

Dividend stocks

For the discussion of this article, I'm thinking of dividend stocks that provide a decent yield of 3% or greater. The dividend should be safe and growing. One dividend stock that comes to mind is **TC Energy** (TSX:TRP)(NYSE:TRP). As a large energy infrastructure company, it provides essential services in transporting and distributing energy. It owns and operates a network of natural gas and liquids pipelines. Furthermore, it has seven power facilities. They work together to increase the dividend stock's cash flow generation over time

From 2016 to 2020, its comparable EBITDA, a cash flow proxy, increased by almost 9% per year. This translated to a five-year dividend-growth rate of approximately 9% as well. However, the company's dividend-growth history is far longer than that — 20 consecutive years of dividend hikes to be exact!

Today, TC Energy stock yields about 5.6%. Management expects dividend increases of 5-7% annually in the foreseeable future. Consequently, the stock should help investors generate juicy passive income in their RRSPs for years to come.

Growth stocks

Growth stocks may or may not pay a dividend. If they do pay a dividend, the yield is likely, at most, 2%. When I mention growth stocks, I mean stocks that are expected to grow at an above-average pace. They are unlike mature dividend stocks that pay fat yields and grow at roughly the inflation rate.

One prime example of a growth stock is **Alimentation Couche-Tard** (TSX:ATD.B). It has been a superb consolidator of convenience stores around the globe. Many of its locations also offer road transportation fuel. Its gas stations attract foot traffic to its convenience stores. The company highlighted that “80% of its in-store merchandise is consumed within one hour of purchase.” The company is also experimenting and investing in the transition to charging stations.

In the last 10 years, Couche-Tard stock has incredibly 10 times investors’ money! Imagine a $10,000 RRSP investment turning into $100,000. That would certainly be a nice addition to a retirement fund. Although the company is unlikely to grow at that pace over the next 10 years, it can still grow at a good pace with organic growth and acquisitions — having been known for its excellent capital-allocation skills.

U.S. dividend stocks

It’s a brilliant idea to select U.S. dividend stocks to help diversify your RRSP portfolio. Some U.S. dividend stocks you should have on your radar include **Lockheed Martin**, **Medical Properties Trust**, **Pfizer**, **Realty Income**, etc. They currently offer decent yields of about 3.2% to 5.7%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

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