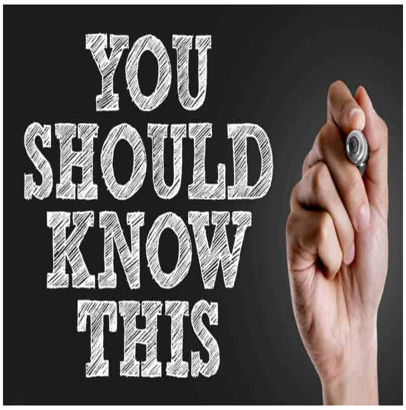

What Is a Registered Account, and What Stocks Should You Hold in 1?

Description

Taking advantage of registered accounts is very important if you hope to achieve financial independence. So, what is a registered account? In Canada, this is the broad term given to tax-advantaged accounts. Although there are many different kinds of registered accounts, the TFSA and RRSP are perhaps the most well known.

As its name suggests, a Tax-Free Savings Account isn't subject to income taxes after the sale of a position. By taking advantage of tax-free returns, investors could compound their portfolios much more quickly. It should be noted that these accounts have a contribution limit, which is determined by the year in which the investor turned 18 years old. It should be noted that Canadians are then given additional contribution room every year. In 2022, investors were given an additional $6,000 of contribution room.

Registered Retirement Savings Plans are a little different. These accounts aren't tax sheltered; however, they are tax deferred. This means that investors will only be taxed upon withdrawal. Therefore, an investor could buy and sell stocks in an RRSP without having to worry about paying taxes in the meantime. Another benefit in using an RRSP is that contributions into these accounts could be used to lower your taxable income.

What stocks should I buy in a registered account?

Because registered accounts have a set contribution limit, it would be a good idea to hold shares of stable and established companies. Of course, you could buy shares of a small-cap stock and potentially see massive gains. However, losses can't be claimed and used for tax-loss harvesting. Therefore, riskier positions should be left for other types of accounts (e.g., a taxable account).

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is a stock that I would consider holding in a registered account. It provides investors with a stable and increasing source of passive income, while providing growth potential. Bank of Nova Scotia is a very diversified company, with about a third of its earnings coming from its international business.

Investors could also consider buying shares of **Canadian National Railway** (TSX:CNR)(NYSE:CNI) in their registered accounts. The Canadian railway industry is largely dominated by a massive duopoly. Canadian National is the larger entity in that duopoly, operating a rail network with more than 30,000 km of track.

Both Bank of Nova Scotia and Canadian National Railway are known as Dividend Aristocrats. This means that both companies have increased their dividend distributions for at least five consecutive years. In fact, their dividend-growth streaks are 11 and 25 years, respectively.

Foolish takeaway

Registered accounts are a very important tool that investors should become familiar with. There are many different types of registered accounts, each with their own benefits and limitations. In my opinion, the TFSA and RRSP are the two most common types of registered accounts. The former is a tax-sheltered account, whereas the latter is a tax-deferred account. In these accounts, investors should aim to hold shares of companies that provide both the potential for growth and steady dividend income.

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