RRSP Investors: An Easy Way to Compound Your Stock Returns

Description

If you invest through a Registered Retirement Savings Plan (RRSP), you can't use your money till you retire or decide to buy a house or continue your education. Even if you withdraw from an RRSP, a 10-30% withholding tax eats up all your returns. The right way to go about RRSP investing is through compounding so that your portfolio is worth the wait.

Two ways to compound your stock returns

Compounding is making money earn more money by reinvesting your gains from investment. You can use compounding in stocks through

- A dividend-reinvestment plan (DRIP), wherein the company reinvests the dividend income in the same stock; and
- Restructuring your portfolio, wherein you book gains in speculative stocks and reinvest in large-cap growth stocks with strong fundamentals.

How a DRIP can compound your RRSP returns

BCE (TSX:BCE) has been paying dividends for over 38 years without any dividend cuts, making it a favourite of RRSP investors. As a Canadian telecom giant, BCE has always invested in the latest telecom infrastructure. It has accelerated its capital investment in 5G infrastructure. The cash flow from subscriptions fuels dividends and grows them at an average annual rate of 5%.

BCE offers a DRIP that can help you compound the 6% dividend yield and 5% dividend growth into a bigger portfolio by the time you withdraw. If you invest $5,000 in BCE through an RRSP, it allows your money to grow tax free. Your $5,000 can compound to $20,000 in 15 years, assuming BCE continues to grow dividends at a 5% average rate.

When you withdraw your RRSP money, you can convert BCE to a dividend-paying option. If the stock still maintains a 6% dividend yield, that could earn you an annual dividend of $1,200 without impacting your $20,000 investment value. That is how compounding works for passive investing.

Restructure your RRSP portfolio at regular intervals

You can also compound stock returns through active investing. Allocate a small amount of your RRSP investment to active trading, wherein you invest in speculative and/or cyclical stocks, book gains, and reinvest in large-cap stocks with long-term growth. Here, you'll convert gains from your active investing into passive investing without having to shell out money from your active income. In theory, it looks easy, but in reality, finding speculative stocks and booking profits is challenging.

Speculative stock

Don't make the mistake of buying a popular stock. Instead, buy an unpopular stock and sell it when it becomes popular. **Hive Blockchain Technologies** (TSXV:HIVE) operates high-computing data centres using renewable energy. It uses them to mine **Bitcoin** and **Ethereum**, the crypto coins that have stood the test of time and become widely accepted in the crypto world. Hive's stock price will surge in another crypto bubble.

Hive is a speculative stock because it is impossible to make a calculated guess of the next crypto bubble. But the growing interest of corporates, the government, and the need for faster and more efficient global currency could lead the way to crypto acceptance. When the bubble comes, Hive stock could jump 800-1,000%, making up for all the waiting.

The challenge would be to book profit at 800% and not wait for 1,000 or 1,200%. A $500 investment in Hive could become $4,500. When that happens, book your profit and invest that $4,000 in a long-term growth stock like **Descartes Systems** (TSX:DSG).

Growth stock

The global supply chain disruption has created an opportunity for Descartes's supply chain management solutions. The company's compliance, routing, and international trade solutions help businesses efficiently trade goods, services, and information.

Descartes makes it efficient to comply with fast-changing global trade restrictions. It continues to enjoy recurring revenue from subscriptions and growing demand from trade challenges. The stock has surged at a compound annual growth rate (CAGR) of 20% in the last 10 years. Even in the 2021 bear market, the stock has surged 20% since May 31, hinting its economic moat can help it return to normal growth.

A $4,000 investment in Descartes could become $16,200 in 10 years, even if the stock grows at a slower pace of a 15% CAGR.

Key takeaway

A mix of active and passive investing can help you compound your RRSP portfolio enough to retire rich.

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3. NYSE:BCE (BCE Inc.)
4. TSX:BCE (BCE Inc.)
5. TSX:DSG (The Descartes Systems Group Inc)
6. TSXV:HIVE (Hive Blockchain Technologies)

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