3 Dividend Stocks for Your TFSA

Description

What would you do with a $5,500 windfall?

For many, this extra cash would be quickly wasted on new TVs, tropical vacations, and shopping sprees. But for those of us with a little control, $5,500 could put a big dent into any savings goal.

Where do I stash extra cash? My tax-free savings account. For ordinary Canadians, this is the best tax loophole around. And what can be better than stuffing your portfolio with dividend stocks that actually pay you to own them?

As it happens, $5,500 is the maximum amount you can contribute to your TFSA this year. So with this theme in mind, here are three dividend-paying companies I'm thinking about buying.

1. TransCanada Corporation

TransCanada Corporation (TSX:TRP)(NYSE:TRP) is one of the steadiest dividend stocks around. It's also one of the most predictable.

The company has about $13 billion in new projects scheduled to come online over the next five years. That's why management recently announced plans to double TransCanada's dividend growth rate through 2017. This new program calls for the company to increase its dividend by 8% to 10% each year, up from about 4% annually today.

Of course, those dividend hikes aren't in the bag just yet. They will still depend on future earnings. However, management would not have raised investors' hopes unless they were sure they could deliver.

2. Toronto-Dominion Bank

Why do I love the **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD)? It's a great example of what small dividend hikes can do to a stock's yield.

Over the past two decades, the bank has increased the size of its dividend more than eight-fold. The crazy part? If you had bought and held the stock over that time and reinvested all of your dividends, the annual yield on your original investment would be more than 60% today.

Let's imagine if we were to hold this stock for another 10 years. Assuming TD can continue to grow its dividend at a 5% annual clip, our yield on cost would increase to 100% by 2025.

3. Canadian National Railway Company

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) if your ultimate Forever Stock. That company's network of track spans over 23,800 route kilometres through densely populated cities coast-to-coast. The cost to replicate this asset would run in the hundreds of billions of dollars, enough to keep any competitors out of the business.

CN is also the lowest cost mover of goods over long distances. Today, trains can move a tonne of fright 180 kilometres on a single litre of diesel, four times more efficient per tonne mile than trucking. You could almost think of it as the **Wal-Mart** of transportation.

For shareholders, that has translated into a steady stream of dividends. CN managed to hike its dividend in both 2008 and 2009, even through the worst of the financial crisis. And since the company went public in 1995, management has increased the firm's payout almost 15-fold.

I expect many more dividend hikes in the years to come.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:TD (The Toronto-Dominion Bank)
3. NYSE:TRP (Tc Energy)
4. TSX:CNR (Canadian National Railway Company)
5. TSX:TD (The Toronto-Dominion Bank)
6. TSX:TRP (TC Energy Corporation)

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