3 Dividend Stocks I'd Buy With an Extra $10,000

Description

The government has doubled the contribution limit on tax-free saving accounts (TFSAs) to $10,000 per year, and it could completely reshape how many Canadians manage their finances.

As regular readers know, I'm a big fan of TFSAs. Like Registered Retirement Saving Plans (RRSPs), investors don't have to pay taxes on any profits earned within these accounts.

But unlike RRSPs, money withdrawn from TFSAs is not taxed. Nor do withdrawn funds affect your eligibility for government programs like Old Age Security or the Guaranteed Income Supplement.

Needless to say, TFSAs change the game for Canadian investors! The question now is, how can you best take advantage of them? The answer is dividend stocks.

The idea is that even though fixed-income securities are taxed at a higher rate than stocks, low bond yields mean you're not saving that much money from the taxman by holding them in registered accounts.

In fact, you could actually lower your tax bill by keeping stocks in your TFSA instead because equities have historically delivered much better returns than bonds or other fixed-income securities.

So, if you have an extra $10,000 to stuff inside your TFSA this year, here are three of my favourite dividend stocks.

One dividend stock for the next 100 years

Why do I love **Enbridge Inc.** (TSX:ENB)(NYSE:ENB)? It's a great example of what small dividend hikes compounded over time can do to a stock's yield.

Over the past two decades, the pipeline company has increased the size of its dividend more than seven-fold. The crazy part? If you had bought and held the stock in that time and reinvested all of your dividends, the annual yield on your original investment would be nearly 90% today.

Let's imagine if we were to hold this stock for another 10 years. Assuming Enbridge can continue to grow its dividend at a 5% annual clip, our yield on cost would increase to 140% by 2025!

This company hasn't missed a dividend payment since 1829

What is the most important characteristic Warren Buffett looks for in a business? A competitive advantage. In the same way a moat protects a castle from attackers, a competitive advantage protects a company from rivals.

The **Bank of Montreal** (TSX:BMO)(NYSE:BMO) has a moat more than a mile wide. Moving accounts from one institution to another is always a big hassle. That's why most households won't switch companies just to save a few dollars on fees.

As a result, BMO has enormous pricing power in the marketplace and that has translated into one of the most dependable dividends around. Since 1829, the company hasn't skipped a single distribution payment to shareholders. And unless Canadians start trading goods and services through barter, I don't expect that tradition to end any time soon.

One dividend stock to buy and hold forever

Telus Corporation (TSX:T)(NYSE:TU) isn't just a solid dividend payer, but it's also one of the most predictable.

That's because management has pledged to raise the company's dividend twice per year through 2016 at a 10% annual clip. That's a strong vote of confidence in the business.

Of course, future payout increases will depend on the company's cash flows and still need to be approved by the board. That means you can't take these dividend hikes to the bank just yet. However, executives would not have risked their credibly unless they were confident they could deliver.

CATEGORY

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TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:TU (TELUS)
4. TSX:BMO (Bank Of Montreal)
5. TSX:ENB (Enbridge Inc.)
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