2 TFSA Picks for Dividend-Growth Investors

Description

The tax-free savings account offers investors a way to build a substantial nest egg without worrying about the tax man taking a big chunk of the profits.

In fact, investors get to keep every penny they earn, and that is key when it comes to investing in dividend-growth stocks.

Why?

Investors with a long-term horizon can harness the power of compounding to turn relatively small investments into significant retirement portfolios. By reinvesting dividends into new shares, the initial funds can grow at a steady clip.

When this is combined with moderate capital appreciation, the results can be staggering.

Which stocks should you buy?

The Canadian market is home to a number of top companies that have long histories of rewarding investors with growing dividends.

Telus Corporation (TSX:T)(NYSE:TU) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) are two names worth considering right now.

Telus

Telus has been a top performer for decades, and that trend should continue.

The company operates in a market with few serious competitors and is known for being the service provider with the strongest focus on customer service.

This strategy has proven to be very successful as Telus boasts the lowest mobile churn rate in the industry and has increased its blended average revenue per user for 21 straight quarters on a year-over-year basis.

Canadian TV subscribers will soon have the option to sign up for a basic $25 TV package and add channels on a pick-and-pay basis. Some industry observers are concerned the new system will result in lower revenue for content producers and service providers.

Telus does not produce any shows or own any TV channels, so it isn't at risk on that side of the equation. As for subscriber revenue, I suspect most Canadians will add channels until they reach their current budget.

Telus pays a quarterly dividend of $0.44 per share that yields about 4.5%.

A $10,000 investment in Telus 15 years ago would now be worth about $31,000 with the dividends reinvested.

Royal Bank

Royal Bank is a profit machine. The company reported net income of just under $10 billion in 2015, and that occurred in a difficult economic environment.

Like Telus, Royal Bank operates in a lucrative market with very few competitors. The bank stocks have been under pressure recently as investors fret about oil losses and the potential for a crash in house prices.

The economic concerns are certainly valid, but Royal Bank's exposure to oil companies is very small when compared to its overall loan book, and its mortgage portfolio is capable of withstanding a significant pullback in house prices.

Long-term investors know the bank will ride out the current economic difficulties, just as it has survived every major financial crisis in the past 150 years. This includes two world wars, the Great Depression, and a number of stock market crashes.

Royal Bank pays a quarterly dividend of $0.79 per year that yields about 4.5%.

A $10,000 investment in the stock 15 years ago would now be worth about $46,000 with the dividends reinvested.

CATEGORY

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TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TU (TELUS)

3. TSX:RY (Royal Bank of Canada)
4. TSX:T (TELUS)

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aswalker