



2 Top Dividend–Growth Stocks for a TFSA

Description

The tax-free savings account (TFSA) is a great place to put money away for trips, a house, or just a rainy day.

It is also a very useful vehicle for retirement planning, and one of the best ways to leverage the TFSA's benefits is to buy dividend-growth stocks.

Why?

Investors can take the dividends and reinvest them into new shares. This sets off a compounding process that can turn a small amount of savings into a substantial nest egg over time.

In the past, investors had to pay taxes on the dividends, which reduced the amount of money that could be reinvested. When the stocks were eventually sold, capital gains taxes also took a nice chunk of the pie.

With the TFSA, all of the money goes straight into the investor's pocket.

Which stocks are best?

The best companies have long histories of paying rising dividends that are supported by revenue growth. They also tend to be industry leaders with limited competition.

Let's take a look at **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)) to see why they are solid picks.

Royal Bank

Royal Bank is a financial giant. The company has a market capitalization of more than \$100 billion and earned just under \$10 billion in profit in 2015.

That's pretty impressive in an economic situation that is considered to be "challenging" right now and shows exactly how successful the institution is at making a buck for investors.

One reason for the big profit numbers at all the Canadian banks is the fact that they operate in a protected bubble. The emergence of mobile-payment competitors is starting to make some waves, but the banks have the financial capability to fight back, and things are likely to continue rolling along quite nicely just as they have for the past 150 years.

Royal Bank has a balanced revenue stream and is investing big in private and commercial banking opportunities in the United States. It has less than 2% of its total loans exposed to energy companies, and the mortgage portfolio is more than capable of riding out a housing downturn.

Management can't be overly concerned about the earnings outlook because the company just hiked the dividend by 3%. Investors currently collect a nice 4.3% yield.

Royal Bank has made some long-term investors rich. A savvy saver who'd bought \$10,000 in Royal Bank shares 20 years ago would now be sitting on \$166,000 today with the dividends reinvested.

Telus

Telus also operates in an industry where a handful of key players have little to worry about other than trying to find ways of luring lucrative customers away from each other.

The company is pretty good at signing up new subscribers because it seriously cares about providing a high level of customer service. Every communications company will say it feels the same way, but in the case of Telus, it shows up in the company's numbers. Telus boasts the lowest mobile churn rate in the industry, and its blended average revenue per user has increased for 21 straight quarters on a year-over-year basis.

The company has avoided the temptation to plunge into the media content game, and that eliminates one of the industry's risks as Canadian TV subscribers shift to a pick-and-pay system.

What's up?

Some channels or programs could get left out in the cold under the new system, and that would hit the revenue stream of the content owners. As for the service providers, most people will probably add their favourite channels until they hit their current budget, so subscriber revenues are probably less at risk.

Telus does a great job of kicking profits back to investors in the form of share repurchases and rising dividends. The company often raises the distribution twice per year, and the current payout offers a yield of 4.1%.

A \$10,000 investment in Telus just 15 years ago would now be worth \$40,000 with the dividends reinvested.

CATEGORY

1. Bank Stocks
2. Dividend Stocks

3. Investing

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1. Editor's Choice

TICKERS GLOBAL

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