TFSA Investors: 2 Dividend Stocks for the Next 20 Years

Description

The tax–free savings account (TFSA) is a great vehicle to help Canadians put some extra cash aside for retirement.

Why?

Investors can purchase dividend-growth stocks inside the TFSA and reinvest the full value of the distributions in new shares.

Over time, the power of compounding can turn a relatively modest initial investment into a large retirement stash, and when the time comes to spend the distributions or sell the shares, all of the gains go straight into your pocket!

This means the size of the retirement portfolio doesn't have to be as large as it would in a taxable account.

Let's take a look at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see why they are attractive picks.

Enbridge

Enbridge took a hit last year as investors exited most names connected to the energy sector.

The pain endured by oil producers with weak balance sheets was certainly warranted, but Enbridge is a pipeline operator, not a producer. As such, throughput is the main concern, not the price of oil, and the company continues to see strong traffic along its network.

Some analysts are concerned the oil rout will hurt demand for new infrastructure. That is certainly possible in the near term, but Enbridge has a backlog of $26 billion in projects under development to keep it busy while the energy sector recovers.

This should ensure revenue and cash flow will grow at a healthy clip and support annual dividend increases of at least 8% for the next few years.

Enbridge also grows through acquisitions, and the company’s recent filing to raise up to $7 billion suggests there could be some big deals on the horizon.

The stock has recovered nicely this year, but more upside could be on the way as the oil industry rebounds.

Long-term investors have done very well holding this company in their portfolios. A $10,000 investment in Enbridge 15 years ago would be worth $99,000 today with the dividends reinvested.

Royal Bank

The Canadian banks are supposed to be facing some economic headwinds, but you wouldn’t know it by looking at Royal Bank’s results.

The company just posted fiscal Q3 2016 adjusted net income of $2.66 billion, up 7% from the same period last year.

Canadian banking net income rose 4% compared with last year. Wealth management profits rose 36%, and net income in the capital markets group increased 17% year over year.

It’s this diversified revenue stream that makes Royal Bank attractive.

The bank recently spent US$5 billion to acquire California-based City National, a private and commercial bank focused on high-net-worth clients. The deal gives Royal Bank a strong platform to expand in the segment, and investors should see the U.S. business become more important in the coming years.

The stock has a strong track record of dividend growth and management just raised the payout by 2%.

What about returns?

A $10,000 investment in Royal Bank 15 years ago would be worth $59,000 today with the dividends reinvested.

Is one a better TFSA bet?

Both stocks are solid picks for a long-term investment and currently offer similar yields of about 4%.

Enbridge should deliver better dividend growth in the medium term, so I would give the pipeline company the edge right now.

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TICKERS GLOBAL

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:ENB (Enbridge Inc.)
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