TFSA Investors: 2 Dividend-Growth Stocks to Help You Save Some Serious Cash

Description

People use the TFSA to meet a variety of savings goals.

Some simply want to set aside money for a holiday; others have bigger things in mind, including a car, house, or a cottage.

Holding the money in cash or GICs makes sense for short-term needs, but if your savings goal is part of a long-term plan, such as creating a nice retirement nest egg, buying dividend-growth stocks inside the TFSA might be a good way to reach your objectives.

Why?

Dividend yields are generally higher than the returns investors can get from GICs, and reinvesting the distributions in new shares can tap the power of compounding.

Over time, the process can actually turn a modest initial investment into some serious cash. Investors just need to have some patience to ride out market turmoil and the discipline to let the money grow.

What stocks should you buy?

Any company with a strong track record of dividend growth supported by rising earnings is a good candidate. If the business is a market leader and enjoys a wide competitive moat, it's even better.

Let's take a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see why they might be interesting picks.

TD

TD is widely viewed as Canada's safest bank. The reason for this lies in the company's heavy focus on retail banking and low exposure to more volatile segments of the industry, such as capital markets.

Some pundits are concerned a Canadian housing crash is going to hammer the banks. TD has a large residential mortgage portfolio, so it's understandable that investors might have some concerns.

Most analysts expect a gradual pullback in the housing market, rather than a crash, and TD is more than capable of riding out weak house prices. Half of the mortgages are insured, and the loan-to-value ratio on the other half is 58%, so housing would pretty much have to fall off a cliff before the company sees a material hit in the portfolio.

Long-term shareholders have done well with the stock. A $10,000 investment in TD just 20 years ago would be worth $144,000 today with the dividends reinvested.

Enbridge

Enbridge is in the process of buying **Spectra Energy Corp.** (NYSE:SE) for $37 billion in a deal that will create North America's largest energy infrastructure company.

The great thing about the pipeline business is that once the initial investment is made, the asset pretty much turns into a tollbooth for decades.

Major projects in the sector have run into some political and public resistance in recent years, and that trend might continue, but Enbridge and Spectra have about $26 billion in small- and medium-sized commercially secured projects under development.

As these assets are completed and go into service, Enbridge expects cash flow to increase enough to support dividend growth of at least 10% through 2024.

The business might not be very exciting, but buy-and-hold investors want returns, not entertainment, and this company delivers.

In fact, a $10,000 investment in Enbridge 20 years ago would be worth $312,000 today with the dividends reinvested.

Is one more attractive?

Both stock are strong buy-and-hold picks.

That said, TD has enjoyed a big rally in recent months, so it might be due for healthy pullback. At this point, I think Enbridge probably offers better dividend growth over the medium term and potentially better upside in the share price.

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1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
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