New Investors: 2 Dividend-Growth Stocks to Put in Your TFSA

Description

Canadians can use the Tax-Free Savings Account (TFSA) to set aside cash for a number of reasons.

Some people are saving for a trip, while others are putting money aside to buy a house. Young investors are also using the account to prepare for retirement.

If you plan to use the TFSA to hold funds for the long term, buying dividend-growth stocks might be the best option.

Why?

The TFSA allows shareholders to reinvest the full value of dividends in new shares, and when the time comes to cash out, all the capital gains are tax-free.

Over time, buying new shares with the dividend payments sets off a powerful compounding process that can turn a modest initial investment into a significant retirement fund.

Which stocks should you buy?

The best companies have long track records of dividend growth supported by rising earnings.

Let's take a look at **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see why they might be interesting picks.

Fortis

Fortis owns natural gas distribution, power generation, and electricity transmission assets in Canada, the United States, and the Caribbean.

The company gets the majority of its revenue from regulated assets, so cash flow should be both reliable and predictable, which is very important for dividend investors.

Fortis expects to increase the payout by at least 6% per year through 2021. The company has raised the dividend every year for more than four decades, so investors should be comfortable with the guidance.

The current distribution yields 3.7%.

A $10,000 investment in Fortis 20 years ago would be worth $186,000 today with the dividends reinvested.

Enbridge

Enbridge just closed its $37 billion acquisition of Spectra Energy in a deal that creates North America's largest energy infrastructure business.

The company now has $27 billion in near-term projects on the go, and an additional $48 billion of longer-term projects under various stages of development.

As the new assets are completed and go into service, Enbridge plans to raise the dividend by at least 10% per year through 2024.

Long-term investors have done well with this stock. A $10,000 investment in Enbridge 20 years ago would be worth $307,000 today with the dividends reinvested.

The bottom line

There are no guarantees that past returns in these particular companies will be repeated, but the strategy of buying top dividend-growth stocks and reinvesting the dividends is a proven one.

The great thing about the TFSA is that Canadians now have a way to build stock wealth and keep all the gains.

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