TFSA Investors: 2 High-Yield Dividend Stocks for Extra Income

Description

What would you do if you had an extra $5,500? Some would go on vacation, and others would buy more clothes and shoes. But what about using that bounty in Canada's Tax-Free Saving Account (TFSA) to multiply your wealth?

Here is how it works:

A 20-year-old who contributes the maximum $5,500 TFSA limit each year starting today and manages an average annual return of 5% would have $1.459 million, including a $970,315 return on investment, in the TFSA plan by the age of 65.

That money isn't taxed when withdrawn. Nor would withdrawing it reduce your investment limit if you have to withdraw some cash to fulfill your emergency needs.

The biggest challenge is growing your portfolio at a faster pace and maintaining the maximum return on your portfolio.

I have a simple solution that I always explain to young savers: keep buying dividend-growth stocks, and you'll see how this whole riddle is solved.

You'll see the magic of compounding when you combine dividend-paying stocks and the tax-free advantage of TFSAs.

Here are the two top quality dividend stocks which should help you to get started on your income-producing portfolio.

Royal Bank of Canada

A great way to benefit from Canada's strong banking system is to invest in **Royal Bank of Canada** (TSX:RY)(NYSE:RY), the country's largest bank and 15th-biggest bank globally. The lender is well diversified across businesses, geographies, and client segments.

The bank offers a dividend yield of 3.74% with a 10-year history of an 8% compound average dividend-growth rate. With this increasing return on investment, long-term investors have done well by holding this stock.

If you had invested $10,000 in 2007, you would have made over $26,000 in total returns from your investment in Royal Bank's stock.

BCE Inc.

BCE Inc. (TSX:BCE)(NYSE:BCE), Canada's largest telecom operator, pays one of the highest dividends among mature Canadian companies.

For young investors who have a limited risk tolerance and who want to keep beefing up their TFSAs regularly, BCE stock is a good buy-and-hold investment.

After a recent pullback, BCE stock offers an attractive valuation and very juicy 4.8% yield with a solid track record of booting dividends.

There is no doubt that the company is facing a stiff competition from smaller players, but it still commands a dominant position. Its wireless, cable, and media empire cranks out some of the biggest, safest dividends around. Young TFSA investors should buy and forget about this stock.

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