



TFSA Investors: The 5 Best Dividend Stocks Are Cheap

Description

Investors using Tax-Free Saving Accounts (TFSAs) have some incredible opportunities popping up in different sectors of the economy as some of the best dividend stocks are cheap after the recent sell-off.

Here is a snapshot of the Canadian equity market performance so far this year and how TFSA investors can benefit from attractive valuations.

After gaining 18% in 2016 and touching a record in February, the **S&P/TSX Composite Index** is down over 2% so far this year at the time of writing, making it one of the worst-performing equity markets in the developed world.

This underperformance is happening at a time when the Canadian economy is forecast to grow at the fastest pace in the developed world, forcing the Bank of Canada to start hiking interest rates for the first time in seven years.

The biggest drag on the Canadian equity values is coming from the energy sector, which makes up a large part of the S&P/TSX Composite Index; oil prices have failed to break out of a trading range.

With this gloomy outlook for commodity prices, some investors have ignored strong fundamentals of the Canadian economy and have been unnecessarily punishing some of the best dividend stocks.

Amid this gloom, however, there are some encouraging signs. Of the 143 index members that have reported second-quarter earnings, 64% have beat analyst estimates, and 30% have missed, according to data compiled by *Bloomberg*. This is a significant improvement from the first quarter, when 49% beat and 43% missed, and an indication that corporate fundamentals are improving.

Here are the five best dividend stocks which have been hurt by the recent weakness in the market, and they're likely to be the first ones to recover when investors pay some heed to strong Canadian fundamentals.

Stocks

Dividend Yield

Market C

Enbridge Inc. (TSX:ENB)(NYSE:ENB)	4.92%	\$81.6 bill
Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)	4.75%	\$46.6 bill
Toronto-Dominion Bank (TSX:TD)(NYSE:TD)	3.77%	\$117.5 b
BCE Inc. (TSX:BCE)(NYSE:BCE)	4.88%	\$53 billio
RioCan Real Estate Investment Trust (TSX:REI.UN)	5.87%	\$7.8 billio

Source: Yahoo! Finance

Let's say a few words about them.

You're unlikely to go wrong with Enbridge stock if you're a long-term dividend investor. Being the largest energy infrastructure provider in North America, Enbridge is crucial for our daily lives. And here's an opportunity to pick its juicy ~5% dividend yield after its shares have fallen about 12% this year.

Trading near the 52-week low, Enbridge offers an expected 10-12% annual growth in its dividend payouts through 2024.

Canadian Imperial Bank of Commerce and Toronto-Dominion Bank also offer a good bargain after the recent weakness as concern about overheated housing markets in the nation's largest cities has weighed on their shares.

But for investors in dividend-growth stocks, banks are a great alternative to bonds in a rising-rate environment. Bond values decline as rates rise.

Canada's five largest banks have averaged dividend growth of 64% since 2008 compared with 32% for the five top utilities stocks on the S&P/TSX over the same period, according to *Bloomberg* data.

RioCan is also under pressure with its stock falling about 10% this year. But amid this general sell-off, investors have forgotten that RioCan has some of the highest-quality tenants in the country that help this top REIT to produce a lot of cash for the monthly distribution.

The bottom line

You should keep an eye for bargains as some great dividend stocks come under pressure due to rising interest rates and concerns about the overheated housing market. Current valuations of some best dividend stocks suggest that a window of opportunity is just opening.

CATEGORY

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

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:ENB (Enbridge Inc.)
4. NYSE:TD (The Toronto-Dominion Bank)
5. TSX:BCE (BCE Inc.)
6. TSX:CM (Canadian Imperial Bank of Commerce)
7. TSX:ENB (Enbridge Inc.)
8. TSX:REI.UN (RioCan Real Estate Investment Trust)
9. TSX:TD (The Toronto-Dominion Bank)

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