2 Dividend-Growth Stocks for New TFSA Investors

Description

Canadians are searching for ways to get better returns on their savings, and one popular strategy is to own dividend-growth stocks inside a Tax-Free Savings Account (TFSA).

Why is this attractive?

The TFSA protects all distributions from the tax authorities, so investors have the option of pocketing the full value of the distributions or investing in new shares.

When the time comes to cash out the investments, any capital gains are tax-free, too!

Which stocks should you own?

The best companies tend to be market leaders with strong track records of dividend growth.

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

TransCanada

TransCanada bought Columbia Pipeline group last year in a US$13 billion deal that added strategic assets in the growing Marcellus and Utica shale plays as well as important pipeline infrastructure running from Appalachia to the Gulf Coast.

Columbia also added a nice portfolio of development projects, and TransCanada now has about $24 billion in its near-term capital plan.

As the new assets are completed and go into service, TransCanada expects cash flow to increase enough to support annual dividend growth of at least 8% through 2020.

The current distribution provides a 4% yield.

TD

TD is widely viewed as Canada’s safest bank.

The reason lies in the company’s reliance on retail banking for the majority of its revenue. This tends to be more reliable than some other segments, including capital markets, which can see wide swings in profitability.

Investors are somewhat concerned that rising interest rates could trigger trouble in the Canadian housing market.

A total meltdown would certainly be negative, but roughly half of TD’s mortgage portfolio is insured, and the loan-to-value ratio on the rest is low enough that house prices would have to fall significantly before the bank takes a material hit.

In addition, TD has a large U.S. operation that provides a nice hedge against any downturn in the Canadian economy.

Management is targeting medium-term earnings growth of 7-10%, so dividends should continue to rise at a regular clip.

TD’s current payout provides a yield of 3.7%.

Is one more attractive?

Both stocks should be solid buy-and-hold picks for a TFSA portfolio, especially if you plan to invest the distributions in new shares to take advantage of any dips in the stock prices and harness the power of compounding.

At this point, I would probably call it a draw between the two names.

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