New Investors: 2 Top Dividend Stocks to Start a TFSA

Description

Canadian investors are searching for quality stocks to hold inside their TFSA portfolios.

The strategy makes sense, as the full value of any dividends paid inside the TFSA are protected from the taxman and can be invested in new shares. Over time, this technique takes advantage of the power of compounding, and a modest initial investment could turn into a significant nest egg.

In addition, any capital gains realized inside the TFSA are also tax-free, so investors get to keep all of the money when the time comes to cash out.

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

Fortis

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

Growth has come through organic developments and strategic acquisitions, with the latter being the most prominent in recent years.

In 2014, Fortis spent US$4.5 billion to acquire Arizona-based UNS Energy. Last year, the company spent US$11.3 billion to buy Michigan-based ITC Holdings. The integration of both companies has gone well, and the assets are contributing to revenue and cash flow as expected.

As a result, Fortis plans to raise its dividend by at least 6% per year through 2021.

The company has increased the payout every year for four decades, so investors should be comfortable with the guidance. At the time of writing, the distribution provides a yield of 3.5%.

TD

TD is best known for its Canadian retail operations, but the company actually has more branches south of the border than it does in the home country.

The U.S. business has grown significantly over the past decade and now represents more than 30% of the company's earnings.

That's a nice hedge against any potential trouble in the Canadian economy.

Some investors are concerned the uptick in interest rates is going to trigger a collapse in the Canadian housing market. It's true that a total meltdown would be negative for the banks, but most expertsexpect a gradual pullback, and TD's mortgage portfolio is capable of riding out a downturn.

Overall, rising rates tend to provide net benefits to the banks.

The stock has a strong track record of dividend growth, and that should continue. TD's distribution provides a yield of 3.6%.

Is one more attractive?

Both stocks should be solid buy-and-hold picks for a TFSA dividend portfolio. At this point, I would probably split a new investment between the two companies.

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