TFSA Investors: 2 Dividend Stocks I'd Buy With an Extra $5,000

Description

There are millions of ways to spend a $5,000 bonus.

Many of us might be tempted to book a vacation to spend a couple of weeks on a beach to escape from the the freezing cold in the winter, and some will go on a shopping spree to buy the latest electronic gadget.

But if you're thinking saving for your retirement and using this bonus to work towards your long-term saving goal, then I've a couple of attractive options to recommend.

But before we get into specific investments, I would like to remove the widespread misunderstanding that savings as little as $5,000 can't make a meaningful impact. The basic rule of investing is that you start early and do it every month.

Here is how it works:

A 20-year-old, for example, who contributes the maximum $5,500 Tax-Free Saving Account (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 his or her TFSA plan by the age of 65.

TFSAs are a great investment tool for young savers who are just starting their careers. One beautiful feature of TFSAs is that your money isn't taxed when withdrawn. Nor would withdrawing it early reduce your investment limit. The biggest challenge is growing your portfolio at a faster pace and maintaining the maximum return on your portfolio.

For your TFSA portfolio, I've always recommend time-tested dividend stocks, such as **BCE Inc.** (TSX:BCE)(NYSE:BCE) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS).

The good thing about these stocks is that they have very stable business models. When you buy these stocks, let's say with your $5,000 bonus, your savings will grow much faster as you get dividend income year after year and continue re-investing that income to buy more of these shares.

BCE has paid an uninterrupted dividend for 133 years, and you can count on those steady distributions to grow your TFSA for many years.

You can also count on Bank of Nova Scotia for a regular income stream for many years.

The bank not only pays dividend, but it's also a great dividend-growth story. It's hiked its payouts in 43 of the last 45 years — one of the most consistent records for dividend growth among major Canadian corporations.

With a dividend yield of 4%, its dividend is more than twice the industry average. I don’t see any reason why this situation is going to change anytime soon, when the bank has very manageable payout ratio of 42%.

Bottom line

Saving for your retirement is all about discipline. All you have to do is to get into the habit of saving early in your career. Through a slow but steady process of investing in solid divided-paying companies, you’ll be able to reap huge rewards during your golden age.

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1. Bank Stocks
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1. NYSE:BCE (BCE Inc.)
2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BCE (BCE Inc.)
4. TSX:BNS (Bank Of Nova Scotia)

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