New Investors: 2 Top Dividend Stocks for Your TFSA Retirement Plan

Description

Canadians are searching for ways to boost the size of their retirement funds.

One popular strategy involves holding dividend-growth stocks inside a TFSA and investing the distributions in new shares. This sets off a powerful compounding process that can turn a modest initial investment into a substantial savings fund over time.

Let's take a look at two top Canadian stocks that might be interesting picks.

Royal Bank of Canada (TSX:RY)(NYSE:RY)

Royal Bank generated net income of $2.8 billion in fiscal Q3 2017. That's some serious cash for three months of operations.

The secret to the company's success lies in its balanced revenue stream. Royal Bank has strong personal and commercial banking, wealth management, and capital markets operations.

In late 2015, Royal Bank spent US$5 billion to buy California-based City National. The deal gave the bank a solid base in the private and commercial banking sector, and investors could see additional deals in the coming years.

Some investors are concerned that a drop in Canadian house prices will hurt the country's banks. A major meltdown would certainly be negative, but most pundits expect the market to cool off at a gradual pace.

Royal Bank is well capitalized, and its mortgage portfolio is cable of riding out a pullback in the housing sector.

The company recently raised its dividend by 5%, so management can't be overly concerned about the revenue outlook. The current payout provides a yield of 3.6%.

A $10,000 investment in Royal Bank two decades ago would be worth about $110,000 today with the dividends reinvested.

Fortis Inc. (TSX:FTS)(NYSE:FTS)

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

The company has grown significantly in recent years with a strong focus on the United States. In 2014, Fortis spent US$4.5 billion to buy Arizona-based UNS Energy. Once the integration was complete, Fortis made an even larger move, acquiring Michigan-based ITC Holdings in 2016 for US$11.3 billion.

The new assets are performing as expected, and Fortis plans to raise its dividend by at least 6% per year through 2022. The company just raised the payout by 6.25% to $0.425 per share. That's good for an annualized yield of 3.6%.

Fortis has increased the distribution every year for more than four decades, so investors should feel comfortable with the guidance.

A $10,000 investment in Fortis 20 years ago would be worth about $105,000 today with the dividends reinvested.

The bottom line

There is no guarantee Fortis and Royal Bank will generate the same returns over the next two decades, but the strategy of buying quality dividend-growth stocks and investing the payouts in new shares is a proven one.

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