2 Dividend Growth Stocks for Your TFSA Retirement Plan in 2018

Description

Income investors who plan to use their Tax-Free Saving Accounts (TFSAs) to earn stable income in 2018 shouldn't ignore dividend growth stocks. The following simple logic supports this strategy.

Dividend-growth stocks slowly build your nest egg by offering regular hikes in their payouts. As years tick by and you re-invest the profits to buy more shares, you'll realize how quickly your portfolio grows.

In Canada, we have many great companies that regularly reward their investors by growing their dividends. Here are my top two picks for TFSA investors for 2018.

CN Rail

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) belongs to a sector that is undoubtedly the backbone of the North American economy: the company runs a 100-year-old railway business. Its huge transport network moves products that we consume every day.

In 2017, CN Rail will likely have moved more than $250 billion worth of goods for a wide range of businesses across a rail network of approximately 20,000 route-miles spanning Canada and mid-America. The company operates in a duopoly in which the **Canadian Pacific Railway Limited** is the only significant competitor.

CNR pays $0.4125 quarterly dividend, which is 10% higher when compared to the same period last year. Over the past five years, CNR's annual dividend distribution has doubled to $1.5 per share — a great incentive for its investors, who also benefited from explosive growth in CNR's share value.

Going forward, the outlook for CNR business looks very promising, with strong economic growth both in Canada and the U.S. To expand its network and meet the needs of an expanding North American economy, CNR is undertaking a $2.7 billion capital program in 2017, which is expected to generate more cash for its investors.

Bank of Nova Scotia

I love Canadian banking stocks, which have reliable histories to provide growing income to their investors almost every year. On average, Canadian banks distribute between 40-50% of their income in dividends each year.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS), Canada's most international bank, is my favourite dividend growth stock among the top five Canadian banks. In the past four years, the bank's quarterly dividend has grown to $0.79 from $0.66 a share, representing an annual growth of 5%.

The lender has paid dividends every year since 1832, while it has hiked its payouts in 43 of the last 45 years. This impressive history of growing dividends is a big attraction for TFSA investors to hold this stock for a long time.

Given the bank's robust international growth and solid position at home, TFSA investors can rely on this name for income growth. Canada's positive economic outlook and the bank's global markets make Bank of Nova Scotia a great buy-and-hold stock for your TFSA portfolio.

The bottom line

These two stocks definitely deserve your attention in 2018 as you build your TFSA portfolio. Dividends or capital gains are not taxed inside your TFSA. This is therefore a great incentive for you to maximize your TFSA limit, which has grown to $52,000 this year.

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Date
2025/08/23
Date Created
2017/12/26
Author
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