Start Your TFSA With These 3 Safe Dividend Stocks

Description

There is no clear saving path for young Canadians who are just embarking on their investing journey. Equity markets and real estate are near their peaks. Bank saving accounts, GICs, and bonds are paying next to nothing.

Despite this dismal situation, young savers have one thing on their side. Their time horizon is one of the major factors in building wealth. The earlier you start, the more you will save, and the better the return you will make on your investments.

In Canada, the Tax-Free Savings Account (TFSA) is a great tool for young savers to launch their retirement funds. This is a tax-free vehicle, meaning you don't have to pay tax on your capital gains and dividends. You can withdraw your investments anytime without a tax penalty. And any withdrawal doesn't reduce your TFSA limit.

Here are three safe dividend stocks to launch your TFSA retirement fund.

Canadian banks

Canadian banks should be on the top of your shopping list when you're starting to build your TFSA portfolio. Canada's top lenders offer stable and growing dividends. On average, they distribute 40-50% of their income in dividends each year.

Among the top Canadian lenders, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is my favourite dividend stock for two reasons.

First, it's the most international bank with a huge growth potential in the Pacific Alliance — a Latin American trade bloc comprising Mexico, Peru, Chile, and Colombia. This diversification has provided depth to its earnings, as each of these countries has attractive economic fundamentals and a strong banking and regulatory system.

Second, the lender has a great history of rewarding its investors. It has paid dividends every year since 1832, while it has hiked its payouts in 43 of the last 45 years. The history tells us that you can count on

Bank of Nova Scotia for a regular income stream.

I do not see this generous dividend policy changing anytime soon, given the bank's robust international growth and solid position at home. This favourable outlook makes Bank of Nova Scotia a great buy-and-hold stock for your TFSA portfolio.

Utilities

Energy infrastructure providers and utilities are my next favourite picks for young savers. These companies belong to a market segment which is known for its safety and income growth. These companies operate under fee-based cash flow models, which protect their revenues in any downturn commodity cycle.

Enbridge Inc. (TSX:ENB)(NYSE:ENB) and the Toronto-based **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) will suit your investing objectives.

Enbridge operates the world's longest crude oil and liquids transportation system, which insulates it from the cyclical nature of the commodity markets. The company is a leader in gathering, transportation, processing, and storage of natural gas in North America.

Algonquin is a diversified utility with over $10 billion of assets in the U.S. and Canada. Through its two business groups, Algonquin provides rate-regulated natural gas, water, and electricity services to over 750,000 customers in the U.S.

Both Algonquin and Enbridge are solid dividend stocks for your income portfolio. Enbridge is targeting 10% dividend growth each year until 2020, while Algonquin plans to increase its dividend payout by 10% each year for the next five years.

The bottom line

Investing in dividend stocks that offer growth and stability to your portfolio is a smart way to start your TFSA fund. This is a less-risky approach for young investors. You can take more risky bets, such as investing in high-growth technology stocks, once you have deepened your knowledge about markets and investing.

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