2 Top Reasons to Keep Dividend-Growth Stocks in Your TFSA

Description

I have come across many young investors who want invest in stocks by taking advantage of Tax-Free Savings Account (TFSAs), but most of them have one thing in common: they can't wait and the want quick returns.

The problem with a successful investing strategy is that there are no quick gains. No one can tell you where stock markets will be heading tomorrow or when a particular security will bounce. Successful investors have one thing in common; they invest in companies that thrive in all environments.

They pick stocks that usually belong to old and boring fields, but the businesses are very simple to explain. Think about banking, insurance, and gas and power utilities.

Another common trait these businesses share is that their managements love to reward their shareholders with regular payouts, or dividends. These cash distributions are your share of the profit a company has made, which it wants to distribute among its investors. Such companies not only pay regular dividends, but they also grow them each year. Such stocks are known as dividend-growth stocks.

If you're a long-term investor looking to build a portfolio of successful investments, you should consider investing in dividend-growth stocks. There are two main reasons why I like this type of investing.

First, companies that offer regular dividend increases run mature and stable businesses. Rewarding investors on a sustained basis also tells us a lot about management's long-term philosophy. These are the companies that care about their reputation and want loyal investors.

Second, regular increases in dividends also tell us about a company's ability to predict its future. It would look very unprofessional and damaging for a management to hike dividends, only to cut them after a couple of quarters.

So, with these benefits in mind, you should use your TFSA to add some quality dividend-growth stocks. Invest in companies with long histories of rewarding their investors and that have made their intentions public about future hikes.

Top Canadian dividend-growth stocks

In Canada, you have banks and energy infrastructure companies that make top of the list when it comes to rewarding their investors. Utilities such as **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Enbridge Inc**. (TSX:ENB)(NYSE:ENB) are two top names that grow their dividends regularly.

Fortis, a gas and electric utility operator, has a 44-year history of dividend growth, and it plans to hike its payout at an annual rate of 6% through 2021. Similarly, Enbridge is targeting 10% dividend growth annually.

Canadian banks are the safest bet for your dividend-growth portfolio. Growing their dividend payouts is a main objective of their business strategy. On average, Canadian banks distribute 40-50% of their income to investors in dividends each year.

Among the six major Canadian banks, I particularly like **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). These lenders have a good mix of assets in both Canada and abroad — a feature that provides strength and a depth to their earnings potential.

The bottom line

Buying and holding dividend-growth stocks is a proven way to build your wealth. Through your TFSA, you can earn stable and growing income without paying any tax on your income.

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3. NYSE:FTS (Fortis Inc.)
4. NYSE:TD (The Toronto-Dominion Bank)
5. TSX:BNS (Bank Of Nova Scotia)
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