New Investors: 2 Canadian Dividend Stocks for a TFSA Retirement Fund

Description

Young Canadians are searching for ways to set aside adequate cash to finance a comfortable retirement.

One popular strategy involves owning dividend-growth stocks inside a Tax Free Savings Account (TFSA) and investing the distributions in new shares. This sets off a powerful compounding process that can turn a modest initial investment into a nice nest egg over time.

Let's take a look at two top companies that might be attractive today.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

TD is widely viewed as the safest pick among the big Canadian banks due to its strong focus on retail banking activities. The company is primarily known for its Canadian operations, but TD also has a large presence in the United States.

The company actually operates more branches south of the border than it does in the home country, and the American division generates greater than 30% of TD's net income. This provides a nice hedge against any potential trouble in the Canadian economy.

The company has a compound annual dividend-growth rate of about 10% over the past 20 years, and investors should see the strong trend continue.

At the time of writing, TD provides a yield of 3.2%.

Rising interest rates could put some pressure on homeowners in the coming years, but TD's mortgage portfolio is capable of riding out a downturn.

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

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

The company has grown over the years through strategic acquisitions, and like TD, Fortis has focused much of the recent investment on the United States, and the U.S.-based operations now account for more than half of the company's assets.

Fortis gets the majority of its revenue from regulated businesses, which means cash flow should be predictable and reliable. This is attractive for buy-and-hold investors who want to invest dividends in new shares.

Fortis recently bumped up its five-year capital plan to $14.5 billion. Management says the new investments should support dividend growth of at least 6% per year through 2022.

The company has increased the distribution every year for more than four decades, so investors should feel comfortable with the guidance. The stock provides a yield of 4%.

Fortis tends to hold up well when the broader market hits a rough patch, and the nature of its business makes it relatively recession resistant.

Is one more attractive?

Both companies should continue to be strong buy-and-hold picks for a dividend-focused TFSA retirement fund. I would probably split a new investment between the two stocks today.

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1. Dividend Stocks
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