3 Dividend Stocks to Help Your TFSA Beat the Market

Description

For do-it-yourself investors who pick their own stocks, the ultimate goal is to beat the market over the long term. As simple as this feat may sound, it's actually hard for many of us because of our human instincts, which incline us to think short term. Many new investors may be undisciplined and impatient, but it's not their fault, since it's basic human psychology pushes us to make emotionally charged and rash investment decisions that could cripple long-term investment goals. We should always be considering the grander scheme of things.

We all want to get rich overnight, but unfortunately, investing is a game that favours the tortoise in that the slow and steady really does end up winning the race! With a long-term perspective and patience, it is possible to outperform the market consistently through the decades, especially if you're not a "professional" money manager with the incentive to put up market-beating short-term results at all times, often resulting in sub-par long-term performance.

Here are three stocks that can and likely will allow you to beat the TSX very easily over the long haul, without requiring you to jump in or out at arbitrary points in time. The tax-free compounding effects offered by the TFSA will really act as a tailwind in your pursuit of long-term market-beating gains. So, without further ado, here are the stocks:

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

TD Bank is a dividend-growth king with the largest exposure to the hot U.S. market. As the Fed continues to tighten, with rate to be hiked by three, four, or possibly even five times this year, the big banks' net interest margins have the opportunity to expand, paving the way for a gradual increase to profitability as we progress further into a higher-rate environment.

Moreover, TD Bank has an above-average risk-management strategy and stands to be more resilient should the Canadian housing market actually implode. Add management's focus on retail banking with its less volatile earnings stream, and you have a "safer" and "higher-quality" bank that I believe is best equipped to raise its dividend by the greatest magnitude versus its Big Five peers over the next decade.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

CN Rail keeping chugging along through the ups and downs of the economic cycle. The stock is a proven long-term beater of the TSX, and those who have bought on signs of weakness have been rewarded very handsomely over the long haul through above-average capital appreciation and very generous, consistent dividend hikes.

Shipment volumes are expected to rise, but given the firm's recent performance, the company's title of "North America's most efficient railway" may be in jeopardy, especially since operations appear to be sub-optimal in the midst of a freight slowdown. CN Rail ousted Luc Jobin, and a new CEO has yet to be found, but I believe these are short-term issues which have resulted in an overblown negative movement in the stock. I'd pick up shares, as the company looks well positioned to rebound after what appears to be a slow start to the year.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS)

Bank of Nova Scotia is another dividend-growth king that has lined the pockets of its shareholders with massive amounts of cash in the past. The company is Canada's most geographically diversified bank, providing investors with exposure to the emerging Latin American banking scene, which has the potential to produce above-average results with a minimal additional increase to the company's overall risk profile.

If you're looking for a high-yield, above-average dividend growth and stock price appreciation potential, then Bank of Nova Scotia may be one of your best long-term performers. If you find your portfolio lacks an international outlet, you should do yourself a favour by adding a position today.

Bottom line

It's not hard to beat the TSX if you take a long-term approach and invest in fundamentally sound dividend-growth kings, while leveraging the power of tax-free compounding through a TFSA.

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2. NYSE:CNI (Canadian National Railway Company)
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