2 Top Dividend Stocks for Your Market-Beating TFSA

Description

For your Tax-Free Savings Account (TFSA), buying top dividend stocks and then holding them for a long time is the best strategy if you are aiming to beat the market.

In this strategy, you should buy stocks with a dominant market position in their industries and with a track record of providing growing streams of income to their shareholders.

Let’s have a look at **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) to find out if these two top dividend names fit the criteria.

Canadian National Railway

CN runs a 100-year-old railway business and has a strong leadership position in the transportation sector. The company essentially operates in a duopoly, where **Canadian Pacific Railway** is the only significant competitor.

You can imagine that creating demand for its services is not a problem when CN has this kind of competitive power. The challenge for CN, however, is meeting that robust demand; this is what plaguing CN stock this year.

CN stock is down more than 8% so far this year after a sudden jump in demand for the freight services in North America. But if you have been following this great business, then you know that CN has consistently beat the market and produced hefty returns for its investors. During the past five years, investors have almost doubled their money. CN has been a great cash machine for investors, paying uninterrupted dividends since going public in the late 1990s.

This year, management boosted the quarterly payout by 10% to $0.46 per share, totaling $1.84 annually for a yield of 1.92%. Trading at $95, CN stock is a great option to consider for your market-beating TFSA portfolio.

Bank of Nova Scotia

When we talk about market dominance, Canadian banks are at the top of mind. They operate in an oligopoly where the top five banks have most of the market share with very loyal customer base.

Among the top names, I particularly like BNS due to its growing operations in emerging markets where the potential to make higher returns is great.

BNS has built a strong presence in the Pacific Alliance — an economic bloc consisting of on Mexico, Peru, Chile, and Columbia. The bloc is proving to be a great source of diversification away from the much-matured Canadian market. The region is likely to contribute 30% to the bank's total revenue over the next three years, up from 23% now.

Canada's third-largest lender has delivered ~40% in totals returns during past five years — twice the size of returns produced by S&P/TSX Composite Index during the same period.

Trading at $82.33 at the time of writing, BNS's annual dividend yield has reached an attractive 4% level. With $3.05 a share annual payout, BNS is another solid name to include in your market-beating TFSA portfolio.

The bottom line

Picking stocks with a wide economic moat and credible history of rewarding investors is a tested approach to beat the market. Both CN and BNS are trading below their fair value and offering a good entry point if you are looking to add quality names to your TFSA.

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