2 Top Market-Beating Stocks to Keep in Your TFSA

Description

Canadian banks are some of the best income-producing stocks to buy through your Tax-Free Savings Account (TFSA) for two reasons.

First, they consistently beat the market if you plan to hold them over a long period. Second, they offer a good defence during the times of extreme volatility.

The strength of Canadian banking system, banks' less-risky business models, and the banks' international growth are some of the top reasons that make them attractive for income-seeking investors. Here are two top banking stocks that are good additions to any TFSA portfolio.

Bank of Nova Scotia

Among Canada's top five lenders, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) has a unique position due to its focus on emerging markets. This strategy has worked very well for the lender and for its investors during the past five years.

After an aggressive push in the Pacific Alliance — an economic bloc consisting of Mexico, Peru, Chile, and Columbia — Bank of Nova Scotia has been able to diversify its income sources away from the domestic market. The region is forecast to contribute 30% to the bank's total revenue over the next three years — up from 23% now.

The company's consistency in paying regular dividends is another important consideration while making an investment decision. Bank of Nova Scotia not only pays a dividend, but it's also a great dividend-growth story. It's hiked its payouts in 43 of the last 45 years.

Investors got two dividend hikes from Bank of Nova Scotia last year, which increased its payout about 7%. The bank is expected to generate $7-8 billion of excess capital by 2020, and that may bring more dividend hikes or share buybacks.

Trading at $79.40 and with an annual dividend yield of more than 4%, Bank of Nova Scotia offers good value to TFSA investors. The lender has consistently beat the market, producing 40% in total returns during the past five years, more than double than what S&P/TSX Composite Index delivered during that time.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is another solid name for your TFSA. The bank regularly gets some negative publicity due its high exposure to Canada's frothy real estate market, but when you see the lender's earning growth and other metrics, you don't find any sign of danger.

In the first quarter, for example, CIBC beat analysts' expectations for its earnings, helped by strong performance at home and south of the border. The bank increased its quarterly payment to common shareholders by three cents to $1.33 per share.

The acquisition of PrivateBancorp last year helped boost CIBC's U.S. commercial banking and wealth management division, which reported net income of $134 million in the latest quarter, up $105 million from the same period in 2017.

Trading at $114.50 and with an annual dividend yield of 4.65%, CIBC stock offers the highest yield and the lowest forward P/E multiple among the top five lenders. On a total-return basis, CIBC is a little ahead of Bank of Nova Scotia; it produced 43% in total returns during the past five years.

The bottom line

Buying Canadian banking stocks is a less-risky approach to beat the market. These stocks have long histories of rewarding their investors with hefty dividend payouts. I don't think you can go wrong by investing in Canadian banks over the long run.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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Date
2025/09/11
Date Created
2018/03/26
Author
hanwar