TFSA Dividend Investors: 2 Reliable Canadian Income Stocks to Get U.S. Exposure

Description

Dividend investors are looking for ways to get exposure to U.S. growth through Canadian companies. This is a particularly important strategy for savers or income investors who own stocks inside their Tax-Free Savings Account (TFSA).

Why?

The distributions from Canadian stocks owned in a TFSA are not taxed, but any U.S.-based stock that is held in a TFSA would have its dividends subjected to a withholding tax.

Let's take a look at **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Fortis Inc.** (TSX:FTS)(NYSE:FTS) to see why they might be interesting picks.

Bank of Montreal

Investors often overlook Bank of Montreal in favour of its larger peers, but the company probably deserves more respect.

The bank has a balanced revenue stream with strong contributions coming from personal and commercial banking, wealth management, and capital markets operations.

The Canadian business is well known to investors, but Bank of Montreal also has a large U.S. presence with more than 500 branches primarily located in the Midwest. The company has made a series of strategic acquisitions to grow the U.S. business over the years, including the purchase GE Capital's transport finance group in late 2015.

Bank of Montreal has been in business in Canada for more than two centuries, and it has paid a dividend every year since 1829. That's an impressive track record, and investors should see the trend continue.

The company recently raised the quarterly payout by $0.03 to $0.93 per share. At the time of writing, that's good for a yield of 3.8%.

Fortis

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

The company has grown significantly in recent years, with two major acquisitions occurring in the United States. Fortis bought Arizona-based UNS Energy for US$4.5 billion in 2014 and picked up Michigan-based ITC Holdings in 2016 for US$11.3 billion. The new assets are performing well and have increased the company's U.S. footprint to the point when more than half of the assets Fortis owns are now located in the United States.

Fortis says it is working through a $14.5 billion five-year capital plan that should boost the rate base enough to support annual dividend growth of at least 6% through 2022. The company has increased the payout every year for more than four decades, so the guidance should be reliable. At the time of writing, the stock provides a 4% yield.

Most of the company's revenue comes from regulated businesses.

Is one a better pick today?

Bank of Montreal and Fortis are both top-quality stocks that should be attractive buy-and-hold picks for a TFSA portfolio.

That said, I would probably go with Fortis as the first choice right now. The utility tends to hold up well when turmoil hits the broader market, and we could be in for some volatility in the coming months.

Bank of Montreal has pulled back a bit from its highs, but the stock still trades above 13.5 times trailing earnings, which is a bit expensive compared to the five-year average. Investors might see a better entry point sometime this year.

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