2 Top Dividend Stocks to Boost Returns From Your TFSA

Description

As you develop a strategy to invest through your Tax-Free Savings Account (TFSA), it makes sense to pick some low-risk stocks from established industries.

You could beat the market for a year or two by investing in some high-growth areas, such as tech and marijuana companies, but research has shown that stocks with low volatility and modest but steady growth generally outperform growth stocks in the long run.

With this theme in mind, I have picked two solid dividend stocks you could consider adding to your TFSA.

Manulife Financial

Manulife Financial Corporation (TSX:MFC)(NYSE:MFC), Canada's largest insurer, is a good pick for your TFSA. Manulife offers financial advice, insurance, and wealth and asset management services to individuals, groups, and institutions.

The company has robust international operations with a huge growth potential in Asia where it operates in some of the largest economies of the region, including China, Japan, Hong Kong, Singapore, Vietnam, Philippines, and Cambodia.

These countries, with an underserved insurance and investment services market, are fueling growth in the company's earnings. In 2017, Manulife's Canadian and Asian businesses experienced double-digit growth, while its U.S. sales were almost flat. The overall growth helped its diluted earnings per share rise 13% when compared to the last year.

Manulife serves 26 million customers globally with more than a trillion dollars in assets under management and administration. At less than 10 times forward consensus earnings estimates and a dividend yield of over 3.5%, valuations for this insurer look quite compelling. Manulife hiked its quarterly dividend by 7% to $0.22 a share in February.

Fairfax Financial

Fairfax Financial Holdings Ltd. (TSX:FFH) is another Toronto-based insurance company to consider for your TFSA. Fairfax is run by the legendary value investor, Prem Watsa, who is known as the Canadian version of Warren Buffett.

Just like Manulife, Fairfax also has a diversified presence in some high-growth markets, including Asia and the U.S. OdysseyRe, the company's reinsurance operation, and Zenith National, a U.S.-focused worker's compensation insurer contributed 69% and 67% of Fairfax's underwriting profits in 2016 and 2015, respectively.

There is a good amount of volatility in the company's earnings that's not suitable if your investment objective is for short term. But over the long term, Fairfax has provided impressive growth and significant increases in shareholders' wealth. During the past five years, Fairfax has delivered a total return in excess of 60%, more than double the size of gains by the benchmark S&P/TSX Composite Index.

Trading at $658 a share and with an annual dividend yield of 1.53%, Fairfax is a good long-term bet for TFSA investors. At the forward P/E multiple of 13.67, the stock's valuation also looks compelling.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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