



## A Top Canadian Dividend Stock to Launch Your TFSA Today

### Description

New [TFSA investors](#) are searching for reliable dividend stocks to add to their portfolios.

The strategy makes sense for both income investors and for Canadians who want to use the TFSA to build a retirement fund. All distributions are tax-free, so you can pocket the full value of the dividend if you need the money. Otherwise, the payouts can be invested in new shares to take advantage of a powerful compounding process that could turn a modest initial investment into a nice nest egg over time.

Let's take a look at **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) to see why it might be an interesting pick.

### Earnings

Royal Bank just reported fiscal Q2 2018 net income of \$3.1 billion. That's right; Canada's largest bank pulled in a cool billion in profits each month!

This might not impress bank customers who think their fees are too high, but it is fantastic news for investors.

Strong revenue growth in personal and commercial banking activities, wealth management, and investor and treasury services helped boost profits by 9% on a year-over-year basis. Royal Bank also received solid contributions from its insurance and capital markets groups.

The balanced revenue stream is one reason Royal Bank is so successful.

### Risk

On the risk side, investors are watching the Canadian housing market for signs of trouble. As interest rates rise, some homeowners might be forced to sell their properties. If a wave of homes hits the market at the same time, prices could fall more than expected, and that would be negative for the banks.

Royal Bank finished fiscal Q2 with \$275 billion in mortgages on its books. Insured mortgages represent about 45% of the portfolio, and the loan-to-value ratio on the uninsured mortgages is 51%. This means house prices would have to fall significantly before Royal Bank takes a material hit.

Most analysts expect a soft landing in the housing market, so investors shouldn't be too concerned.

## Dividends

In February, Royal Bank raised its quarterly dividend by \$0.03 to \$0.94 per share. At the time of writing, that's good for an annualized [yield](#) of 3.8%.

The company has a strong track record of dividend growth, and that trend should continue with rising earnings.

## Returns

Long-term investors have done well with this stock. A \$10,000 investment in Royal Bank just 20 years ago would be worth more than \$90,000 today with the dividends reinvested.

## The bottom line

There is no guarantee Royal Bank will deliver the same results over the next two decades, but the stock remains an attractive pick and should serve as a good starting point for building a balanced TFSA portfolio.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

## POST TAG

1. Editor's Choice

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