2 Canadian Dividend Stocks I'd Keep in My TFSA

Description

Buying and holding stocks in your Tax-Free Savings Account (TFSA) is a great way to slowly build your wealth. This approach particularly works for young savers who are just launching their portfolio and have a good 30 to 40 years of work life ahead of them.

If you're saving for retirement, choosing between a TFSA and a Registered Retirement Savings Plan (RRSP) can be tricky. There's no upfront tax break for a TFSA, but you get to keep all the money you withdraw from your account. The RRSP gives you an immediate tax deduction. However, you'll have to pay taxes on any withdrawals.

It's always better to consult with a tax professional to fully understand the potential of these saving vehicles and what's best for you. If you want to unlock the income-generating power of your TFSAs, you'll have to include some high-return assets in your account. For investors with a long-term investment horizon, holding dividend stocks is highly recommended.

To help you get started on your TFSA, here are two top dividend stocks that you can consider to buy and hold in your portfolio.

Bank of Montreal

Canadian banks are among the best dividend stocks in Canada. On average, Canada's Big Five lenders distribute between 40% and 50% of their income in payouts each year.

Bank of Montreal (TSX:BMO)(NYSE:BMO), the nation's fourth-largest lender, has been sending dividend cheques to investors every single year since 1829 — one of the longest streaks of consecutive dividends in North America.

With a dividend yield of ~3.83%, BMO pays a $0.93-a-share quarterly dividend. This payout has increased with an ~8% compound annual growth rate with a manageable payout ratio of 50%.

With a strong presence in commercial banking, retail banking, wealth management and capital markets, BMO has the potential to generate growing cash flows and reward its investors. And r ising interest rates in both U.S. and Canada and their strengthening economies are expected to help the lender to post strong earnings in the years to come.

BCE Inc.

BCE Inc. (TSX:BCE)(NYSE:BCE), Canada's largest telecom operator, is another quality dividend stock to buy and stash in your TFSA. The company is investing billions of dollars to build new telecom infrastructure in Canada to leverage its presence in everything from wireless spectrum to data lines to media assets.

Over the last decade, investors who've reinvested their dividends into more BCE shares have enjoyed an annual return of 13%, which would've turned a $10,000 investment into one worth $23,000. The company's policy calls for distributing between 65% and 75% of its free cash flow in dividends.

Trading at $54 and yielding 5.59%, BCE stock is offering a return that looks very attractive given its dominance position in Canada's telecom space and the low risk nature of this investment.

The bottom line

Both BMO and BCE are solid dividend stocks to hold in your portfolio. You can slowly enhance the income-generating power of your portfolio by picking similar stocks each year as more space becomes available in your TFSA.

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