2 Top Canadian Dividend Stocks to Help Build Retirement Wealth in Your TFSA

Description

Canadians are searching for ways to set aside some substantial cash to fund a comfortable retirement.

One popular strategy involves owning quality stocks inside a Tax Free Savings Account (TFSA) and using the dividends to buy more shares. This takes advantage of a powerful compounding process that can turn a modest initial investment into a significant nest egg over two or three decades.

When the time come to cash out, all the capital gains are yours to keep.

Let's take a look at two Canadian stocks that deserve to be on your TFSA radar.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS)

Investors often skip Bank of Nova Scotia in favour of its larger peers, but that might lead to missed opportunities, especially in the coming years.

Why?

Bank of Nova Scotia has invested billions to build a large international business, primarily focused on Mexico, Colombia, Peru, and Chile. These four countries make up the Pacific Alliance, which is a trade bloc set up to promote the free movement of goods and capital. Combined, the four markets are home to more than 220 million people.

As the middle class grows, demand for loans and investment products should increase and Bank of Nova Scotia is well positioned to benefit.

The international operations already account for nearly 30% of Bank of Nova Scotia's net income, providing a nice hedge against any potential downturn in the Canadian economy. The bank continues to make strategic acquisitions in the region, so investors should see the earnings contributions from Latin America rise in the coming years.

Bank of Nova Scotia has a strong track record of dividend growth. The current payout provides a yield of 4.3%.

A $10,000 investment in Bank of Nova Scotia 20 years ago would be worth about $90,000 today with the dividends reinvested.

Suncor Energy Inc. (TSX:SU)(NYSE:SU)

Suncor is Canada's largest integrated energy company with oil sands, refining, and retail businesses.

The diversified operations all along the value chain set Suncor apart from its peers, and the unique structure is a big reason the stock held up so well during the oil rout.

Suncor took advantage of the downturn to add strategic assets at attractive prices. This provided a cost-effective boost to its resource base and production. In addition, the company pushed ahead with two major projects, Fort Hills and Hebron, which are now complete. As production ramps up, investors should see a nice increase in cash flow available for distributions.

Suncor raised its dividend by 12.5% for 2018, and steady growth should continue, even if oil prices remain at current levels. The distribution provides a yield of 2.8%.

A $10,000 investment in Suncor 20 years ago would be worth more than $110,000 today with the dividends reinvested.

The bottom line

The strategy of buying top dividend-growth stocks and investing the distributions in new shares is a proven one. It just takes some time to find the right companies and the discipline to hold them for the long haul.

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