2 Proven Dividend-Growth Stocks to Buy in Your TFSA Immediately

Description

Tax-Free Savings Accounts (TFSAs) are great for investors to build their wealth by buying and holding stocks for the long haul, because what you earn inside will be tax free (most of the time). If you earn foreign income in your TFSAs, there may be withholding taxes from the source countries.

Anyhow, here are two proven dividend-growth stocks with stable underlying businesses you can consider for your TFSA right now.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS), or Scotiabank, and **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) offer safe dividend yields of about 4-5%, which are much bigger than the roughly 2.7% yield the Canadian market, represented by **iShares S&P/TSX 60 Index Fund** (TSX:XIU), has to offer. This means that Scotiabank and Algonquin shareholders get paid handsomely.

Seeing that we've been in a nine-year bull market, it's not a bad idea to invest defensively. On one hand, investors can keep more cash on the sidelines and wait for opportunities to buy at a bargain. On the other hand, investors can invest in defensive stocks, and Scotiabank and Algonquin are a good fit.

Invest in defensive stocks

Defensive stocks should fall less than the average stock in a market crash. The dividend income offered by Scotiabank and Algonquin add another layer of defensiveness and should help psychologically to hold on to the stocks through turbulent times.

Banking and utility products and services are needed no matter if the economy is doing well or badly. Moreover, Scotiabank and Algonquin offer attractive yields of 4.4% and 5.3%, respectively, which act as stable income for their shareholders.

Valuation

Buying the stocks at good valuations adds another layer of defensiveness. Right now, the stocks are trading at reasonable valuations.

At about $74.40 per share, Scotiabank trades at a price-to-earnings multiple of roughly 10.9, while it's estimated to grow its earnings per share at a rate of 7-8% for the next few years.

At $12.70 per share, Algonquin trades at a multiple of about 16.4, while it's estimated to grow its earnings per share at a rate of 10% for the next few years.

Dividend growth

Both Scotiabank and Algonquin have paid dividends for a number of years. The bank's five-year dividend-growth rate is 6.8%, while the utility's five-year dividend-growth rate is 14.7%.

Going forward, the stocks should continue increasing their dividends at rates that more or less align with their earnings-growth rates as outlined earlier.

Investor takeaway

Scotiabank and Algonquin are proven businesses, which are trading at reasonable valuations and can deliver long-term returns of more than 11%. Buying these stocks in a TFSA will allow you to build your wealth faster without the hindrance of any taxes.

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1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. Editor's Choice

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kayng