2 Top Stocks to Buy and Hold in Your TFSA

Description

For a successful investing strategy that aims to build retirement income, buying and holding dividend growth stocks should be a vital component. You need to buy stocks that regularly raise their payouts so that you could use this income to pay for your bills once you stop working.

In Canada, banking stocks offer one of the best avenues for such investors. Their yields are big enough and dividend growth is strong enough to ensure that inflation doesn't erode the buying power of those regular payouts. Here are the two top banking stocks to consider buying using your Tax-Free Savings Account (TFSA).

Royal Bank of Canada

At a time when the Canadian economy is going strong and the Bank of Canada is forecast to continue with its policy to raise interest rates, buying **Royal Bank of Canada** (TSX:RY)(NYSE:RY) seems to be a winning bet.

The lender is the nation's largest bank, with more than $1.2 trillion in total assets with a very strong bias to reward income investors. RBC is a serial dividend raiser that has boosted its payout every year since 1870. For TFSA investors, who are just starting their saving journey, RBC is a solid dividend stock to keep in their portfolio.

There is nothing that suggests that RBC won't be able to keep its foot on the dividend pedal. In the second quarter, RBC earnings rose 11%, helped by strong growth at its wealth management and retail businesses.

For the quarter that's ending in July, the Street is expecting another 11% growth in earnings, but given the lender's track record, it's highly likely that RBC will beat these expectations. During the past four quarters, RBC's earnings came in better than analysts' estimates.

Trading at $100.20 with an annual dividend yield of 3.8%, RBC is a stock that you could stash in your TFSA to earn growing payouts. Its strong position in Canada and abroad makes the lender an attractive buy for new investors with a long-term investing horizon.

Bank of Nova Scotia

Bank of Nova Scotia (TSX: BNS)(NYSE:BNS), Canada's third-largest lender, is another stock that fits nicely in a portfolio seeking stability and growing returns. Like RBC, Scotiabank has one of the most consistent records of rewarding its investors. The lender has paid a dividend every year since 1832, while it has hiked its payouts in 43 of the last 45 years.

What separates Scotiabank from RBC, however, is the lender's growth plan in emerging markets. Over the last decade, Scotiabank has expanded aggressively in the Pacific Alliance — an economic bloc consisting of on Mexico, Peru, Chile, and Columbia.

That growth continues unabated. Last year, Scotiabank bought the majority stake in BBVA Chile for $2.9 billion. The move would make Scotiabank Chile's third-largest privately owned bank, thereby doubling its share of the Chilean market to 14%.

Trading at $75.10, BNS stock has underperformed RBC this year after an 8% dip in its value. But I see this pullback a good opportunity for TFSA investors to lock-in a 4.4% dividend yield to earn steadily growing income.

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