Top Dividend Stocks to Launch Your TFSA

Description

The Tax-Free Savings Account (TFSA) is a great saving product available to Canadians who want to build their nest egg.

By investing through TFSAs, you don't have to pay any tax on your capital gains at the time of withdrawal. You're also free to dip into this account during emergencies. These withdrawals don't cut your TFSA limit.

Once you're ready to launch your TFSA, the next challenge is picking the right investments. Buying quality dividend-growth stocks is one of the safest approaches to build your TFSA. Here is why.

Steadily growing returns

Investing in companies that regularly hike their dividends is a proven strategy to build your wealth. Dividend-paying stocks produced about 15-fold better returns than non-dividend-paying companies between 1972 and 2014, according to a research by **Goldman Sachs's** wealth management division.

If your investment objective is to grow your savings slowly without taking on too much risk, then you should pick stocks that are the leaders in their industries with a lot of financial power to defend their turfs. In other words, you want to avoid small- or mid-cap companies that are still struggling to gain the market share.

As you slowly build your portfolio of dividend-growth stocks, you should focus on those names that have the greatest potential to increase their payouts on a regular basis in the future. That means focusing less on a company's current dividend yield and more on its payout ratio and growth prospects.

Top dividend stocks

In Canada, top banking stocks perfectly fit this criterion. The nation's largest lenders, such as **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), are among the best dividend-growth stocks with manageable payout ratios. These banks are steadily growing their dividends and distributing between 40% and 50% of their net income in payouts. Their conservative payout ratios leave a lot of space for the future growth.

Power and gas utilities and telecom operators offer another great avenue to grow your TFSA wealth. Companies such as **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **BCE Inc.** (TSX:BCE)(NYSE:BCE) have long histories of growing dividends.

Enbridge stock, for example, has hiked its dividend at an average compound annual growth rate of 11.7% during the past 20 years. The largest pipeline operator in North America has been paying dividends for more than the 60 years.

The bottom line

You need a disciplined investment approach and a mix of the right dividend-growth stocks to power your TFSA. If you hold on to these investments and continue to re-invest your profit to buy more shares, you will note how quickly your wealth grows.

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2. NYSE:ENB (Enbridge Inc.)
3. NYSE:RY (Royal Bank of Canada)
4. NYSE:TD (The Toronto-Dominion Bank)
5. TSX:BCE (BCE Inc.)
6. TSX:ENB (Enbridge Inc.)
7. TSX:RY (Royal Bank of Canada)
8. TSX:TD (The Toronto-Dominion Bank)

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