Top Dividend Stocks That Could Help Build a Perfect TFSA Portfolio

Description

There are many ways you can invest to build a portfolio using your Tax-Free Savings Account (TFSA). Some investors like a less risky approach and deploy a major part of their investment in fixed-income securities, such as bonds and GICs, while others buy mutual funds or ETFs. But in my opinion, stock picking is a great option for do-it-yourself investors.

Investing in stocks isn't rocket science. All you have to do is to give up a short-term approach and think as if you're becoming a partner in the business in which you're buying shares.

In this strategy, companies that have a sustainable advantages over competitors should be on top of your list.

Here is an example of two dividend stocks from various sectors of the Canadian economy to show you how you can build a diversified TFSA portfolio on your own to get a steady stream of income.

Telus Corporation

Canada's top telecom companies are among great candidates to park your TFSA dollars. These utilities provide stable and growing dividends to income investors due to their dominant position in the market.

In Canada, the telecom market is divided among four players that control about 80% of the broadband and video market and more than 90% of the wireless market.

Among these operators, Telus Corporation (TSX:T)(NYSE:TU) is one of my favorite picks. With a current dividend yield of 4.45%, Telus pays a quarterly dividend of $0.505 a share, which translates into $2.02 per share annually.

Telus is well on track for 2018, marking the 15th straight year in which it has hiked its annual dividend.

Going forward, Telus plans to offer between 7-10% growth in its payout each year. Given the company's growth momentum and its ability to generate solid cash flows, Telus is a perfect dividend stock to consider including in your TFSA.

Toronto-Dominion Bank

The next place to shop around for your TFSA portfolio is Canadian banks. Canadian lenders are known for their stability and generous dividend policies. On average, Canada's large banks pay between 40-50% of their income in dividends each year.

Among the top lenders, Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is in a unique position to reward investors for many years to come. Its large presence in the U.S., strong domestic operations, and stringent cost controls of the past decade has made it a great cash machine for income investors.

After an 11% increase in its payout this year, income investors in TD stock now earn a $0.67-a-share quarterly dividend, which translates into a 3.40% yield on yearly basis.

The bank is likely to grow its dividend payout between 7% and 10% each year going forward. And that's likely to come with some massive capital gains. During the past five years, TD delivered 71% in total returns.

Bottom line

For long-term investors, such as those using their TFSAs to build income for their retirement, Telus and TD offer one of the best avenues in which to invest. Investing in such companies help build your nest egg slowly.

Remember, this approach only works for investors who have a long-term investing horizon, not for those who want to make quick returns.

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