TFSA Investors: Grow Your Wealth With These Dividend Stocks

Description

In a TFSA account, we get the benefit of growing our wealth in a tax-free environment. And the benefits add up quickly. For example, in a regular investment account, any interest earned is taxed as income at full income rates, and this can eat away at your returns pretty quickly. Dividend income and capital gains are taxed at lower rates, but still, this taxation adds up over the years. And when you withdraw your money out of a TFSA, still, there is no tax.

Given this, it is advisable to make use or your TFSA room, which has an annual limit of $5,500 and a cumulative total limit of $57,500.

Your portfolio should first include interest-paying investments, as interest is taxed most heavily, followed by other investments that will generate dividend income and capital gains.

Here are three dividend stocks to consider for your TFSA.

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TransCanada (TSX:TRP)(NYSE:TRP)

For more than 65 years, TransCanada has been developing and maintaining energy infrastructure, while handsomely rewarding shareholders.

Since 2000, TransCanada stock has provided shareholders with a 13% average annual return, while delivering yearly dividend increases, which brought the dividend per share from $0.80 to $2.76 — strong growth indeed.

TransCanada currently has an attractive dividend yield of 5.17%, above-average, visible growth, and an infrastructure presence that should ensure strong growth well into the future.

Investors can expect continued dividend growth of 8-10% through to 2021.

CIBC (TSX:CM)(NYSE:CM)

In the last 10 years, CIBC stock has returned 189%, and although this is the lowest return among the Canadian bank stocks, its dividend has consistently been higher than the rest.

CIBC stock's dividend yield is currently 4.5%.

Rising interest rates, a strong balance sheet and capital ratios, and a focus on retail and business banking, and now, wealth management will drive the performance of the stock going forward.

This bank is going full steam ahead in its wealth management business and in its U.S. expansion, benefitting from these growing markets while keeping its eye on controlling the risk.

Power Corporation of Canada (TSX:POW)

With a 5.38% dividend yield, a one-year return of negative 11%, and the infamous holding-company discount, is Power Corporation of Canada a buy at these levels?

I've been struck by the fact that while this stock is traditionally a very steady and stable stock, it is now trading at 52-week lows, and as interest rates rise, it will certainly rise as well.

Let's consider if this company is an attractive buy.

As a holding company that is largely exposed to the financial services industry, with its main holding being **Power Financial** (whose main holdings are **Great West Lifeco** and **IGM Financial**), it is trading at a discount to its NAV.

There is a comfort for investors to have their exposure being managed by this holding company, but the holdings are very easily replicated, as they are mostly publicly traded companies.

And this, along with the fact that Power Holding has head office expenses and a voting structure that is controlled by the Desmarais family, leads me to think that maybe it should trade at a discount to NAV, and that investors might be able to generate better returns elsewhere despite the stock trading at 52-week lows.

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