2 Top Dividend Stocks to Get Your TFSA Snowball Rolling

Description

The hardest part about long-term investing is sitting on your bum after you've already bought shares of a company you've deemed as wonderful.

Doing the homework, analyzing an individual company's financial statements, its industry, and the macroeconomic environment is no easy feat, but the emotional rollercoaster ride that ensues a stock purchase is undoubtedly when most beginner investors make the mistake of taking action when the best course of action is doing nothing at all.

In an age where timely information is available at the click of a mouse, it's not a mystery as to why the average holding period of a stock has dropped considerably since the days where you had to go to the library to access a company's stale financials on microfilm.

Indeed, many investors can't wait to sell a stock immediately after they've purchased it. Add a couple down days into the equation, and you've got an investor who's second-guessing themselves and losing all confidence in a thesis that may end up paying massive dividends if a stock were just left alone for years at a time.

Think of buying a stock of a wonderful business as pushing a snowball off a snow-covered hill of variable height. If you sell, you're making the mountain shorter than it ought to be, and as a result, your snowball won't be as massive as it would be if you just let it roll on perpetually.

Of course, there are bound to be bumps and obstacles in the way, but after your snowball's grown to a certain size, those bumps will be less noticeable, and the momentum behind it will be unstoppable. Unless, of course, you put a stop to it yourself, and the momentum behind it will be unstoppable. Unless, of course, you put a stop to it yourself.

Consider **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) and **Fortis** (TSX:FTS)(NYSE:FTS), two dividend-growth sensations that have experienced significant bumps in the road of late. With the USMCA trade deal (or NAFTA 2.0 or whatever you'd like to call it) finally in the bag, Stephen Poloz and the Bank of Canada are probably going to put his foot on the rate hike pedal as Canadian interest rates look to catch up to our neighbours south of the border.

Getting out of the rut

Higher-than-expected rates have had high-yielding securities in a bit of a rut, especially those within capital-intensive "RUT" sectors (REITs, utilities, telecoms). At this juncture, the general public only seems to care about the macro picture of higher rates, and not about the individual companies themselves. The RUT stocks have been dead trades of late, but shunning them, I believe, is a huge mistake, especially when you consider how cheap they've become over the past year.

Shaw and Fortis are now down 21% and 14%, respectively, from their all-time highs. And despite being above-average growth players in a below-average growth space, both stocks have been sent to the penalty box for a five-minute major when in reality, they should have been given a two minute minor along with the broader basket of RUT stocks.

Now, being higher-growth names, Shaw and Fortis are going to feel the effects of higher rates more so than a stalwart that's simply returning capital into the pockets of shareholders. When you consider the long-term macro picture, however, the growth will dwarf the higher cost of investing in an era of higher rates.

Longer-term tailwinds will prevail

Consider Shaw, a new entrant to the Canadian wireless scene with Freedom Mobile.

Canada's telecom oligopoly has been undisturbed for many years, and with all players slated to make significant investments on new 5G infrastructure, no telecom is welcoming a higher interest rate environment.

What sets Shaw apart from the incumbent oligopolists, however, is the fact that its very presence is going to cause an escalating amount of disruption to the subscriber bases of the original Big Three telecoms. Shaw seeks an equal 25% share of the Canadian wireless market, and as its network continues to improve at a lower price point, Shaw's wireless business is going to gain market share at the expense of some of the Big Three players.

Similarly, Fortis is a utility with highly regulated cash flows and an above-average profile of promising growth projects. As electric vehicles (EVs) become more mainstream, the demand for off-the-grid electricity is going to spike, and that's a strong secular tailwind for Fortis and all other utilities with promising renewable businesses.

Foolish takeaway

Shaw and Fortis may not be sexy plays today, or over the next year, but at these depressed valuations, given the impressive long-term catalysts, both stocks are must-buys for dividend investors looking for +4% dividend yields and consistent annual hikes.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Stocks for Beginners
3. Top TSX Stocks

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. NYSE:SJR (Shaw Communications Inc.)
3. TSX:FTS (Fortis Inc.)
4. TSX:SJR.B (Shaw Communications)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Stocks for Beginners
3. Top TSX Stocks

Date
2025/07/07
Date Created
2018/10/09
Author
joefrenette