Why This Bank Is One of the Best Dividend Stocks for Your TFSA

Description

If you're investing to build your savings through your Tax-Free Savings Account (TFSAs), Canadian banks offer one of the best avenues.

The nation's lenders have been very consistent in rewarding investors through steadily growing dividends. Their main strength comes from their strong local presence, their ability to grow south of the border, and operating in a regulatory environment which is among the best in the the developed world.

To grow your TFSA, you need to invest in stocks that you could keep in your portfolio over the long run. Adding the best dividend stocks and then continuing to buy more of them from your dividends will produce a powerful savings tool for you.

Best dividend stocks

In Canada, the biggest dividend growth stocks are banks, gas and power utilities, real estate investment trusts (REITs), and telecom operators. Pick the top names from these sectors and hold them over the long run. Canadian top lenders, with their growing income and payouts, fit nicely in this strategy.

In the fourth-quarter earnings season, analysts are expecting the big five banks to show profit growth of about 12%, year-over-year, driven by their strong international operations, accelerating commercial loan growth and rising interest income.

"It has been a good year. Moreover, notwithstanding the share price performance in the last few months, commentary at recent conferences and investor days suggests that fiscal 2019 will be another good one," Robert Sedran, an analyst at CIBC World Markets, said in a note.

From the top five Canadian banks, Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is my favourite in this space.

A great diversification play

This wide presence in the U.S. makes TD Bank a great diversification play, as it generates 27% of its net income from the U.S. retail operations. The bank also has a 42% ownership stake in TD Ameritrade with a fast-expanding credit card portfolio.

Following its aggressive growth in the U.S. during the past decade, TD now runs more branches south of the border than it does in Canada.

When it comes to dividends, TD distributes between 40% and 50% of its income in dividends. 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 3.74% yield on yearly basis.

The bank is forecast to grow its dividend payout between 7% and 10% each year going forward — impressive growth to bank on if the current market downturn persists.

Bottom line

In an environment when interest rates are rising and equities are falling, Canadian banking stocks can offer a good refuge. TD is a great stock to hold in this uncertain economic environment.

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Date
2025/09/09
Date Created
2018/11/27
Author
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