TFSA Investors: 2 Overlooked Dividend Stocks to Consider for Your Retirement Fund

Description

Canadians are increasingly using their self-directed TFSA to build a portfolio of dividend stocks to help save for a comfortable retirement.

Let's take a look at two top stocks that often lie in the shadows of their more popular peers.

Bank of Montreal (TSX:BMO)(NYSE:BMO)

With a market capitalization of $60 billion, Bank of Montreal is number four in the list of Canada's Big Five banks. As a result, investors often skip the bank when choosing a financial institution to add to their portfolios, but that might mean missing out on a very steady and reliable dividend stock that could be in a sweet spot in the sector right now.

Why?

Bank of Montreal has a balanced income stream, with 41% of its earnings coming from Canadian personal and commercial banking, 18% from capital markets activities, 18% from wealth management operations, and 21% from the U.S. personal and commercial banking group.

The company has paid a dividend for 189 consecutive years, and aside from a pause through the Great Recession, tends to raise the distribution annually. In fact, the compound annual growth rate of the payout over the past 15 years is 7%.

The bank is targeting 7-10% earnings growth over the medium term, so the dividend increases should keep pace.

On the risk side, Bank of Montreal's total Canadian residential mortgage portfolio stood at $108 billion at the end of fiscal 2018, which is small on a relative basis compared to some of its peers. The insured mortgages represent 46% of the portfolio and the loan-to-value ratio on the remaining loans is 54%, so there isn't much for investors to worry about on from a housing perspective.

The stock has recovered some of the losses that hit the broader bank sector last year but still appears reasonably priced. Investors who buy today can pick up a yield of 4%.

Shaw Communications (TSX:SJR.B)(NYSE:SJR)

The wisdom of Shaw's decision to sell its media business to **Corus Entertainment** was questioned at the time, given the strong cash flow generation of the assets, but the move appears to have been a wise one as the media industry struggles with falling ad revenue and competition from online content producers.

Shaw used the funds to help cover the cost of buying Wind Mobile, which it renamed as Freedom Mobile. Investment continues as Shaw expands the network, but early indications suggest the mobile division is performing well and it gives Shaw the ability to compete for customers with bundled TV, internet, and mobile packages.

The company pays its dividend monthly and the current distribution provides a yield of 4.4%.

Once Shaw gets through the heavy lifting of its capital program, investors should see a return to dividend growth, and that could put a nice tailwind behind the stock.

The bottom line

Bank of Montreal and Shaw are often overlooked by investors but probably deserve more respect and should be solid picks for a buy-and-hold TFSA retirement fund.

Other opportunities are also worth considering today.

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3. Investing

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