2 Safe Stocks to Buy Now and Hold in Your TFSA

Description

If you're planning to build your savings through your Tax-Free Savings Account (TFSA), then your investing approach should be less risky and more income-oriented. With this mindset, you should pick stocks that are known for paying dividends with solid growth plans.

Many new investors often ignore the importance of dividends and their contribution to overall wealth creation. In general, dividend-paying companies tend to be higher quality, with stronger balance sheets than non-dividend paying companies.

Not only do dividend stocks as a group have less volatility, but they also outperform non-dividend paying stocks over time. According to **Morgan Stanley**, one of the biggest investment banks, over the last 90 or so years, dividends have accounted for more than 40% of the total return equation.

A study by Factset shows that dividend-paying stocks outperform their non-paying counterparts by a dramatic amount. From 1991 through 2015, non-dividend paying stocks earned just 4.18% return per year, while dividend paying stocks significantly outperformed with a 9.7% average annual return.

Two utility dividend stocks to buy

In the dividend space, I like energy infrastructure companies that build pipelines, storage facilities, and provide electricity and gas to millions of customers. The reason I'm getting excited about utility stocks is that there are clear signs that growth in North America is slowing and the economy is possibly entering a recession after a decade-long expansion.

This negative scenario isn't conducive for central banks to continue raising interest rates. In fact, we might very well be in an environment soon where central banks will be delivering rate cuts; that situation bodes well for bond-type utility stocks, which rally when rates decline.

If you find my bearish case carrying some weight then you should start buying stocks, such as **Emera Inc.** (TSX:EMA) Toronto-based **Algonquin Power and Utilities** (TSX:AQN)(NYSE:AQN).

These utilities have thousands of customers who pay them every month in utility charges, and it's highly unlikely that these companies see their revenue affected if a recession hits.

Emera's 85% consolidated earnings come from its regulated business. This is one of the biggest advantages of investing in regulated utilities, as certainty in their cash flows makes it easier for management to distribute profits in the shape of growing dividends. In case of Emera, the growth in earnings is expected to support the company's 8% per year dividend growth target through 2020. It pays $2.35 annual dividend now, yielding 4.76% on the current stock price.

Algonquin, through its two business groups, provides rate-regulated natural gas, water, and electricity services to over 700,000 customers in the U.S. Algonquin also runs a clean-energy unit with a portfolio of long-term contracted wind, solar, and hydroelectric generating facilities, managing more than 1,250 MW of installed capacity.

The company generates about 70% of earnings from regulated utilities and 30% from contracted renewable power. This diversified revenue base has helped the utility to provide steadily growing returns to its investors. It pays $0.67 a share yearly dividend with a 4.5% annual yield.

CATEGORY

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TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)
3. TSX:EMA (Emera Incorporated)

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