TFSA Investors: Dividend-Growth Stocks Are Your Best Friends

Description

It's not easy to decide where you should invest your savings in a market full of contradictions. You might face exactly the same challenge if you're investing through your Tax-Free Savings Account (TFSA), where you have a small amount of money to put to use for the long-term gains.

In such a situation, I always recommend buying top dividend-growth stocks. The companies that regularly pay cash to their investors in the shape of dividends are generally the safest investments in equity markets.

Companies that offer regular dividend increases run mature and stable businesses. Rewarding investors on a sustained basis also tells us a lot about management's long-term philosophy. These are the companies that care about their reputation and want loyal investors.

Regular hikes in dividends also tell us about a company's ability to predict its future. It would look very unprofessional and damaging for a management to hike dividends only to cut them after a couple of quarters.

So, keeping these benefits in mind, you should add dividend-growth stocks in your TFSA portfolio rather than going for risky bets where you have a greater chance of losing your capital. In Canada, there are several areas to pick your dividend-growth friends from, but I particularly like banks, railroads, and utilities.

Two TFSA growth stocks

You can pick the top players from these sectors, such as **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI). Both stocks are the leader in their fields and have great track records of boosting income for their shareholders.

RBC is Canada's largest lender with a robust presence in the U.S. This position of strength allows the lender to regularly grow its dividends. During the past five years, RBC stock has delivered over 40% returns, including dividends, far exceeding the 12% gain offered by the benchmark S&P/TSX Composite Index.

CN Rail is benefiting from its dominant position in North America's transportation that has allowed the company to pay uninterrupted dividends since going public in the late 1990s.

This year, management boosted the quarterly payout by 10% to $0.46 per share, totaling $1.84 annually. The company has been increasing its dividend with a five-year CAGR of 14%. During the past five years, investors have made over 91% in total returns, which includes dividends.

Bottom line

Stocks such as RBC and CN Rail may not offer hefty gains, which one can earn by investing in riskier areas of the market, but they are solid players, offering a better risk/reward equation to investors who have limited savings and want to play it safe.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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4. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:RY (Royal Bank of Canada)

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