Income Investors: 1 Huge TFSA Mistake You Need to Avoid

Description

This month we've covered some of the major mistakes that investors need to avoid in their tax-free savings accounts and registered-retirement savings plans. Today we are going to cover one huge mistake that can upend attempts to build income in your TFSA.

Investing in US/International dividend stocks

The TSX Index boasts many attractive dividend stocks for investors looking for income in their portfolios. However, investors are often tempted to look to other markets in order to maximize the growth and income in their TFSAs.

As it stands today, the TSX has no stocks that have achieved at least 50 consecutive years of dividend growth. There are over 20 U.S.-listed stocks that have achieved this impressive feat.

Coca-Cola (NYSE:KO) is a dividend king and an understandably tempting target for Canadian investors. The company has posted dividend growth since 1963, marking 55 consecutive years in 2018.

It even boasts a 3% yield, a strong payout compared to other dividend kings. In 2018 Coca-Cola saw cash flow increase 14% year-over-year to $6 billion and improve its market share in total nonalcoholic ready-to-drink (NARTD) beverages.

There are rumours that Coca-Cola may seek to dip into the fledgling cannabis market, but the company has denied its interest so far.

Many Canadians will be attracted to this elite stock, but they need to be made aware of major hurdles when pursuing this strategy.

Foreign dividend stocks, which include those listed in the United States, are subject to a withholdingtax when held inside a TFSA. When it comes to U.S. stocks, investors will be hit with a 15%withholding tax that's not recoverable. Unlike the TFSA, an RRSP does not penalize investors forholding U.S. dividend stocks.

Canadian investors should feel free to pursue stocks like Coca-Cola in their RRSPs. However, income investors need to look for other options in their TFSA.

Enbridge (TSX:ENB)(NYSE:ENB) is the largest energy infrastructure company in North America. Shares were up 17% in 2019 as of close on April 16. The stock was up 21% from the prior year.

Enbridge does not possess a dividend crown, but it's well on its way to entering the dividend aristocracy. A dividend aristocrat is a stock that has achieved at least 25 consecutive years of dividend growth. Enbridge has achieved 23 consecutive years of dividend growth after wrapping up an impressive fiscal 2018.

In 2018 Enbridge reported adjusted earnings of $4.5 billion compared to $2.9 billion in the prior year. Adjusted EBITDA increased to $12.8 billion compared to $10.3 billion in 2017.

Enbridge scored some big regulatory wins in 2018 and enters fiscal 2019 with wind at its back and a strong balance sheet. On January 25 **Moody's** upgraded Enbridge's senior unsecured debt rating from Baa3 to Baa2.

Enbridge announced a 10% dividend increase in 2019 and projects another 10% increase for 2020. The stock currently offers a quarterly dividend of $0.738 per share, which represents a strong 5.9% yield.

Beyond 2020, Enbridge is targeting annual DCF per share growth in the range of 5% to 7%. There are no other stocks on the TSX that offer Enbridge's mix of dividend growth history and high yield.

Canadian TFSA investors may lament that they are penalized for pursuing U.S. dividend stocks, but they should know that there are still fantastic options right here at home.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:KO (The Coca-Cola Company)
3. TSX:ENB (Enbridge Inc.)

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