1 Top Dividend Stock to Buy for Your TFSA When the Economy Is Slowing

Description

Investors who use their Tax-Free Savings Accounts (TFSAs) to build their wealth have one more reason to get bullish about top dividend stocks: the Bank of Canada is likely to remain on the sidelines and avoid raising interest rates for a longer period of time.

When interest rates are on hold, or when they are falling, it's a good indicator for a rally in dividend stocks. Dividend stocks, which pay regular income to investors, directly compete with fixed-income assets, such as bonds and GICs. In an environment when the central bank is more concerned about the economic growth, investors get a better deal by investing in equities.

Canada's top telecom operator, **BCE** (TSX:BCE)(NYSE:BCE), is among top dividend stocks. It is looking extremely attractive for an income-seeking TFSA investors at a time when the Bank of Canada is likely to stay on hold or may even cut interest rates as the nation's growth slows.

Here are my two top reasons to support that view.

Attractive dividend yield

As I mentioned earlier, dividend stocks become more appealing when the bond yields decline. BCE is currently offering more than 5% dividend yield, which is a great bargain when you compare it with the rates on GICs, for example. According to the *ratehub.com*, a website that provides comparison on investment products, the best five-year GIC rate you can get today is 3%.

The other advantage of locking in BCE's 5.3% yield is that you're likely to get a regular increase in your payout as the company hikes its dividend. The company has long maintained a policy of increasing its dividend by 5% annually.

As per the company's dividend policy, the company distributes between 65% and 75% of its free cash flow in payouts. In the past decade, BCE has more than doubled its payout to reward its loyal shareholders. After delivering another 5% dividend hike in the past quarter, BCE investors now get $3.17 per share payout annually.

Great defensive stock

BCE could prove one of best defensive stocks in your TFSA when the economy is slowing down or when the risk of a recession is looming. Telecom companies aren't too volatile when markets are going through an uncertain period.

The reason is that their services are among the last that people would consider cutting in a recession. And that stickiness provides stability to their cash flows, making them perfect TFSA stocks.

If you analyze BCE's stock performance over the past five years, you will realize it's a slow-growing investment paying steadily growing dividends while preserving your capital.

Bottom line

Trading at $60.28 at the time of writing, BCE stock has delivered very strong returns during the past one year after it recovered from its weak phase in 2018. BCE shares gained more than 11% when the benchmark index rose 7% during the past 12 months.

Despite this strong rally, it's still a good time to buy this stock and keep it in your TFSA, especially when the economy is slowing and you need to get defensive in your investing approach.

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