2 Passive Income Picks for Your TFSA Portfolio Today

Description

Retirees and other income investors are searching for reliable dividend stocks to add to their TFSA holdings in the hopes of building a reliable passive income fund.

Inside the TFSA, all interest, dividends, and capital gains are tax-free, so you get to pocket the full amount rather than worrying about how much the tax authorities are going to take. This is specifically attractive to pensioners who have to watch their annual income levels in order to avoid clawbacks in government payouts. All earnings generated inside the TFSA are exempt from income calculations.

Let's take a look at two stocks that might be interesting passive-income picks right now.

Royal Bank of Canada (TSX:RY)(NYSE:RY)

With a market capitalization of $150 billion, Royal Bank is Canada's largest company, and despite its size, continues to grow at a steady rate.

The firm reported fiscal Q1 2019 revenue of $11.6 billion, representing a 7% increase over Q1 2018. Net income rose 5% to $3.2 billion.

The various groups had mixed year-over-year results. Canadian banking net income rose 4% and wealth management income was comparable to Q1 the previous year. Insurance net income jumped 31%, but the capital markets and investor and treasury services segments posted weaker results because of challenging market conditions through the end of calendar 2018. The fiscal Q2 numbers should show a rebound in these groups.

Royal Bank recently raised the quarterly dividend by 4% to $1.02 per share, which is good for a yield of 3.9%. Management is targeting medium term earnings-per-share growth of 7-10% and investors should see the dividend increase in line with those results.

The stock has pulled back a bit after the solid rally off the December low and now trades at $105 per share at writing. The 12-month range is $90-$108.

Fortis (TSX:FTS)(NYSE:FTS)

Fortis owns electric transmission, power generation, and natural gas distribution businesses in Canada, the United States and the Caribbean.

The company grows through a mix of strategic acquisitions and organic developments with a focus on regulated assets. This is important for income investors, as the businesses tend to provide reliable and predictable revenue streams.

Fortis is working on a $17.3 billion capital program that will boost the rate base significantly over five years. As a result, management expects to see cash flow increase enough to support average annual dividend hikes of 6%. The board has raised the distribution for 45 straight years and the current payout provides a yield of 3.6%.

The stock price is up 20% in the past year and Fortis now trades near an all-time high.

The bottom line

Royal Bank and Fortis have strong track records of dividend growth and that trend should continue. The stocks are not as cheap as they were at the 2018 lows, but should still be solid buy-and-hold picks for a TFSA fund focused on generating passive income.

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aswalker