Retirement Investors: A Top Banking Stock to Anchor Your TFSA Portfolio

Description

Canadian savers are searching for ways to set aside ample cash to complement their other pension payments in retirement.

The TFSA has become a popular vehicle to meet this objective. Any interest or dividends can be either spent or used to invest in new stocks. In addition, the capital gains created when you finally sell shares are also yours to keep. That's correct; the tax authorities don't take a cut from any income generated inside the TFSA.

This means all the spoils go straight into your pocket, which is helpful for retirees or anyone else who is carefully managing their monthly income stream.

Which stocks are the best investments?

Choosing stocks to build a TFSA retirement portfolio can be a daunting process. There is no such thing as a guaranteed winner. That's why you get higher yields from stocks than you would normally see from a GIC. However, there are characteristics of companies that tend to be solid performers over the long haul.

For the most part, top picks tend to be industry leaders with strong businesses that have track records of providing steady dividend growth supported by rising revenue and earnings.

Let's take a look at one TSX Index giant that might be a good example to get your TFSA retirement fund started.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is Canada's second-largest bank by market capitalization. The company is best known for its Canadian business and has historically received strong ratings for its customer service levels. The bank focuses heavily on the retail banking side of the sector, which includes personal and commercial banking and wealth management activities.

TD made a big push in the past 15 years to build a large U.S. business. Management says TD now has the scale it needs to compete in the United States, although tuck-in acquisitions are always on the radar. The American business accounts for more than 30% of TD's profits. The bank generated adjusted earnings of $12 billion in fiscal 2018.

The board does a good job of sharing profits with investors. TD buys back shares and has raised the dividend by a compound annual rate of about 11% over the past 20 years. Investors who buy the stock right now can pick up a yield of 3.8%.

Anyone who put $10,000 into TD stock just two decades ago would have about $80,000 today with the dividends reinvested.

The bank isn't without risk. TD holds a significant Canadian residential mortgage portfolio. In the event interest rates rise quickly over a short period of time, or a recession triggers a large wave of job losses, the bank could take a hit from loan defaults.

That said, housing risks appear to be waning amid the tighter restrictions put in place by the government and the current trend of falling mortgage rates. For the moment, unemployment is at lows not seen in decades, so there shouldn't be much of a threat over the medium term.

Should you buy?

TD is a market leader with a strong and growing business. The dividend should continue to increase in line with expected earnings gains of 7-10% per share over the coming years. If you are searching for a reliable stock to anchor your TFSA retirement portfolio. TD deserves to be on your radar today.

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3. Investing
4. Stocks for Beginners

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