2 Cheap Stocks for a TFSA Retirement Fund

Description

Investors are searching for top-quality stocks to help them meet their retirement savings goals.

One popular strategy involves buying reliable dividend stocks and using the distributions to acquire new shares, which takes advantage of the power of compounding interest and can generate impressive portfolio growth over 20 or 30 years.

Let’s take a look at two top Canadian dividend stocks that appear oversold today.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is Canada’s fourth-largest bank, with a market capitalization of about $60 billion. The bank has paid a dividend every year since 1829 — a trend that should continue.

Bank of Montreal is probably best known from the strength of its commercial banking segment in both Canada and the United States. However, it also has solid personal banking, wealth management, and capital markets operations.

The company’s relative exposure to the Canadian housing market is lower than that of some of its peers, so it shouldn’t take as big a hit should house prices fall sharply. For the moment, it appears that a soft landing is the more likely outcome.

Bank of Montreal trades at $95 per share at writing compared to $106 three months ago. The 12-month low was $86 last December. We could see the stock retest that level if markets continue to slide, but investors might want to start nibbling today.

Bank of Montreal now trades at an attractive 10 times trailing earnings and the dividend provides a solid 4.3% yield.

Any additional downside in the stock price would be viewed as a signal to add to the position.

Canadian Natural Resources Ltd.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is a giant in the Canadian energy sector, with a market capitalization of $38 billion and a resource base that includes natural gas, gas liquids, oil sands, heavy oil, light oil, and offshore oil production.

The company does a good job of allocating capital to the best opportunities as market prices shift and has a balanced approach to using excess free cash flow. Investors receive a generous dividend and funds are also allocated to pay down debt and repurchase shares.

The company raised the dividend by 12% for 2019, and investors should see another generous hike next year. Oil and gas prices remain under pressure, but CNRL continues to squeeze out strong profits.

At the time of writing, the stock trades at $32 per share compared to $45 at this time last year. Investors who buy now can pick up a 4.7% yield and wait for sentiment to improve in the energy sector. If oil prices rally in 2020, this stock could potentially take a run at $50 per share.

The bottom line

Bank of Montreal and CNRL are quality companies with growing dividends. Both stocks appear oversold right now and should be attractive buy-and-hold picks for a TFSA retirement fund.

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