These Are the Best Stocks to Buy for Your TFSA

Description

Canadians have taken big advantage of the Tax-Free Savings Account (TFSA) since its launch in 2009. This savings vehicle, which was introduced to help investors earn tax-free returns on their savings, has become so popular that since its inception, more than 14 million people have used it.

According to the latest data, which is available from the Canada Revenue Agency (CRA), a total fair market value of individual TFSAs had reached $277 billion by the end of 2017, up 19% from the previous year. That level of commitment by Canadians to invest in their TFSAs shows that it's much easier and beneficial to grow your savings through this instrument.

Some of the biggest advantages of investing through TFSA is that your capital gains are tax free and you can take out your funds anytime without incurring any tax liability. With these benefits, your overall TFSA limit remains the same.

Another interesting detail that came out from the CRA data is that despite the huge popularity of these savings account, very few Canadians were able to max out their limit — only 10% of total TFSA contributors. By the end of 2017, the average amount of unused TFSA room was almost $31,000.

If you have not yet contributed a single penny through your TFSA, you have $63,500 unused total contribution room through 2019. If you're one of those who still has some room in the TFSA, then there are many ways you can start accumulating wealth.

Best TFSA stocks

You can put your money in high-return savings accounts, invest in other fixed-income assets, such as government bonds, or you can buy some of the best income-producing stocks. To be honest, I don't like investing in fixed-income savings products because they pay you so little. The best TFSA pays about 2.5% these days, which, in my opinion, doesn't even beat inflation.

If you really want to make a meaningful contribution towards your retirement or savings goals, then you have to take a little risk and buy solid dividend stocks. The companies that pay regular and growing payouts have built a strong investment case for TFSA dollars.

In Canada, the best dividend-growth stocks are banks, power and gas utilities, real estate investment trusts, and telecom operators.

Pick the top names from these sectors, such as **Royal Bank of Canada**, **Enbridge** (TSX:ENB)(NYSE:ENB), and **BCE**, and hold them for a long time in your TFSA — let's say for the next 10 years.

These companies distribute huge amounts of their income in dividends, and they grow these payouts every year as their profits rise. RBC, Canada's largest lender, distributes between 40% and 50% of its income to shareholders each year.

The total return from a $10,000 investment in RBC seven years ago is 142.25%, which translates to about an average annual total return of 13.47%. Seven years ago, the bank stock was trading at $57.02. As of this writing, the price is $104.76, translating into capital appreciation of about 85%.

Bottom line

A disciplined investment approach, picking solid dividend-paying stocks, and holding them for a long time should be the main component of your strategy to max out your TFSA. When you combine this approach with the power of compounding, you can achieve your financial goals quickly.

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