TFSA Income: 2 Dividend Stars to Own for Decades

Description

Securing income streams from a variety of sources is one way to ensure a comfortable retirement.

This is becoming increasingly important for Canadians, as the employment world shifts from traditional full-time work with generous retirement benefits to contract work that has no pension plan, let alone health coverage.

As a result, people are more likely to rely on self-directed TFSA portfolios to help fill the gap.

The TFSA contribution limit will increase by $6,000 in 2020, making the cumulative maximum space $69,500. That's enough room to start a nice portfolio of dividend stocks to create a stream of passive income.

Let's take a look at two companies that might be attractive picks to anchor a balanced TFSA pension.

Royal Bank of Canada

Royal Bank of Canada (TSX:RY)(NYSE:RY) is a heavyweight in the Canadian and global financial arenas. The bank is Canada's largest company by market capitalization and is in the top 20 globally based on that metric.

Rising provisions for credit losses have some pundits concerned Royal Bank and its peers could be in for some tough times in the next few years. If the Canadian economy goes through a severe recession, earnings will get pinched, but Royal Bank remains very profitable and can take advantage of difficult times to make strategic acquisitions.

The bank has a strong capital position, so it is positioned well to ride out a slowdown, and its diversified revenue stream provides a nice income balance. Royal Bank has operations in more than 30 countries and gets nearly a quarter of its profits from the United States.

Fiscal 2019 adjusted net income was $12.9 billion, so things are rolling along quite well, despite some headwinds.

The bank is investing in new technology to make digital banking easier and more efficient for its customers. This trend will continue and should help Royal Bank compete with rivals as the financial industry evolves and non-bank competitors target apiece of the mobile payments pie.

The bank has a strong track record of dividend growth, and any weakness in the share price has historically proven to be a good buying opportunity. At the time of writing, investors can pick up a 4% dividend yield.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is one of those stocks income investors can buy and simply forget for 20 or 30 years. The utility company has more than $50 billion in assets located in Canada, the United States, and the Caribbean and continues to growth through acquisitions and organic projects.

The businesses include power generation, electric transmission, and natural gas distribution operations. These tend to operate in regulated sectors that ensure cash flow is steady and predictable. That’s a big reason why Fortis has been able increase the dividend annually for the past 46 years.

A robust capital program should continue to boost the rate base over the next five years, providing additional revenue and earnings. This is expected to support ongoing dividend increases of about 6% per year through 2024.

The nature of business lines makes Fortis a good pick to hedge against an economic downturn, and the stock provides investors with good access to U.S.-based earnings through a Canadian company. More than half the assets are located south of the border.

The existing dividend provides a yield of 3.5%.

The bottom line

The TFSA is a great alternative for Canadians to generate a stream of tax-free pension income. Royal Bank and Fortis should be solid picks to start a balanced portfolio.

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aswalker