TFSA Investor: 2 Top Canadian Dividend Stocks to Own for 40 Years

Description

Canadian investors are using their TFSA to achieve a variety of financial goals.

Some people use the vehicle to hold cash for a rainy day or to save for a big purchase, such as a house or a condo. Others are taking advantage of the tax-free status to build a fund for retirement.

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The TFSA contribution limit increased $6,000 in 2020, bringing the total since inception to a maximum of $69,500 per person. That's large enough for people to set up a solid investment portfolio that can be used to help cover living expenses in the golden years.

One popular strategy involves buying dividend stocks and using the distributions to acquire additional shares, setting off a powerful compounding process that can turn modest initial investments into a serious wealth fund over time. The trick is to hold top-quality stocks with strong track records of dividend growth.

Let's take a look at two stocks that might be interesting picks to get your diversified TFSA wealth fund started.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a Canadian utility company with assets located in Canada, the United States, and the Caribbean. The businesses range from natural gas distribution to power generation and electric transmission. While these might not be very exciting when compared to tech or cannabis, they're great for investors seeking reliable income streams.

The utility assets Fortis owns are primarily operated in regulated sectors, which means that cash flow should be predictable. This helps the company plan for investments and tends to make Fortis less volatile when the broader stock market hits a rough patch.

Fortis grows through acquisitions and internal expansion projects. The current five-year capital program covers $18.3 billion in new investments that should drive the rate base up enough to support average annual dividend hikes of 6% through 2024.

Investors have received a dividend increase in each of the past 46 years. A $10,000 investment in Fortis 25 years ago would be worth $235,000 today with the dividends reinvested.

Royal Bank

Royal Bank of Canada (TSX:RY)(NYSE:RY) is Canada's largest company with a market capitalization of more than $150 billion. It's a giant in the global financial sector and one of the few considered too big to fail.

Fortunately, the bank is at little risk of going bust. In fact, Royal Bank reported net income of $12.9 billion in fiscal 2019 and the good times should keep rolling right along.

The bank has a balanced revenue stream with diversification by segment and geography. Royal Bank received 23% of revenue and 17% of net earnings in fiscal 2019 from the U.S. operations, providing a nice hedge against any potential trouble in the Canadian market.

Royal Bank is more than capable of riding out an economic downturn. The bank is well capitalized, with a CET1 ratio of 12.1% and has operations in more than 30 countries.

Long-term shareholders have done well with the stock. A $10,000 investment in the bank 25 years ago would be worth $344,000 today with the dividends reinvested.

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The bottom line

While Fortis and Royal Bank might not generate the same returns over the next 25 years, they remain solid picks for a diversified TFSA portfolio focused on quality dividend stocks.

The **TSX Index** is home to many top companies that have generated stellar long-term returns.

CATEGORY

1. Bank Stocks
2. Dividend Stocks

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:FTS (Fortis Inc.)
4. TSX:RY (Royal Bank of Canada)

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