TFSA Investors: 2 Dividend Stocks to Buy Forever

Description

Dividends stocks are perfect for a TFSA. These companies generate more cash than they need to retain and opt to distribute the extra capital directly to shareholders. When holding these investments in a TFSA, all that cash is completely tax free.

The best dividend stocks are ones you hold for life. These companies have the opportunity to compound your capital over the long term. Because compound interest grows your capital faster and faster as time goes on, having a long-term investing horizon is key to financial success.

Which dividend stocks can deliver reliable income for years to come? Your best options may not be what you expect.

Riding a new wave

For decades, utility stocks have been a favourite among dividend investors. These companies use regulation to their advantage, ensuring stable cash flows that support regular dividends.

But the industry is evolving. The utility stocks of the past may struggle to compete in the future. That's because the makeup of our energy grid is changing rapidly, with new sources of fuel coming online that play by a different set of rules.

Consider a coal or natural gas power plant. These facilities must constantly spend money to purchase more commodities for combustion. They'll always have ongoing operating costs.

Compare that to a wind or solar farm, where the input costs are close to *zero*. There may be a little maintenance, but no more than for a coal or gas plant. Once online, wind and solar projects have the ability to push out all of the competition, and because their ongoing costs are zilch, there's not much incentive for a competitor to build in the same region and undercut pricing.

Environmental concerns may have brought renewable energies to the forefront, but it's simple economics that will scale the movement. That's what makes **Brookfield Renewable Partners** (
TSX:BEP.UN

)(NYSE:BEP) so intriguing.

Brookfield is one of the world's largest renewable energy companies. This scale allows is to bring massive projects online at industry-leading prices. It already has more than 5,000 projects located across four continents. The resulting cash flow helps fuel a 4.7% dividend.

Over the coming decade, Brookfield intends to expand immensely, and given the economics of renewable energy, its healthy dividend should remain resilient, even through an economic downturn.

Build your own dividend

Fairfax Financial Holdings (TSX:FFH) only offers a payout of 2.2%. What's it doing on a list of dividend stocks?

When asked about paying a dividend, Warren Buffett, head of **Berkshire Hathaway**, recommended that investors build their own dividend — that is, sell shares of stock to generate cash. Buffett argued that he'd rather reinvest the funds at a high rate of returns and allow shareholders complete choice of how to create a cash stream.

Prem Watsa, founder of Fairfax Financial, has a very similar approach. In fact, the strategies of Fairfax and Berkshire are almost identical. Both companies own a litany of insurance businesses that throw off regular cash that Watsa and Buffett can use for investing purposes.

Over the last 35 years, Fairfax stock has produced annual returns of more than 15%. That's a fair trade in lieu of a higher dividend.

With Fairfax, you can ensure yourself a reasonable 2.2% dividend. With double-digit returns on the stock price, you have an option to monetize shares to up your cash inflow at any time.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
3. TSX:FFH (Fairfax Financial Holdings Limited)

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