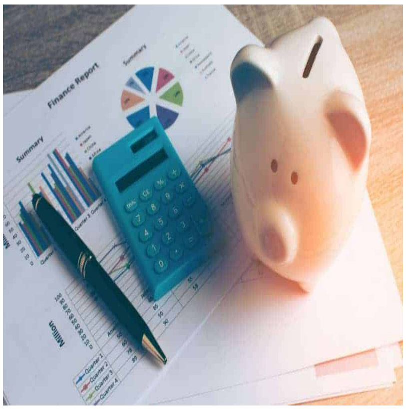

TFSA Pension: How to Invest in Top Canadian Stocks and Build a Wealth Fund for Retirement

Description

Canadian savers are increasingly using the Tax-Free Savings Account (TFSA) as part of their overall retirement planning program.

The trend is expected to continue in the coming years, as more people join the gig economy and firms cut back on full-time jobs and reduce benefits.

Falling interest rates and low bond yields make it difficult for corporations to meet defined benefit (DB) pensions obligations, so those plans are becoming rare.

Defined contribution (DC) plans are more common and some can be very generous when the employer kicks in an equal or better match to the contributions made by the employee. The risk, however, shifts to the worker. Payouts at retirement are determined by the performance of the investments, rather than being guaranteed.

As a result, more people are using the TFSA to create a personal pension fund.

One popular strategy for building a TFSA wealth fund involves buying top-quality dividend stocks and using the distributions to acquire more shares. This sets off a compounding process that acts like a snowball rolling down a hill. Over time, the initial investments can grow to be significant savings.

Let’s take a look at two top dividend stocks that might be interesting picks to get the ball rolling on a TFSA pension fund.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a leader in the Canadian banking sector and one of the top players in the fragmented U.S. market.

TD’s American operations contributed about $5 billion of the company’s $12.5 billion adjusted profits in fiscal 2019. The U.S. business provides investors with a great way to get exposure to the United States through a Canadian stock.

TD has raised the dividend by roughly 11% on a compound annual basis for the past two decades. Ongoing hikes should be in line with anticipated annual earnings-per-share gains of 7-10%. The current payout provides a yield of 4%.

With as CET1 ratio of 12.1%, the bank is positioned well to ride out any economic turbulence. TD finished fiscal 2019 with $292 billion in Canadian real estate loans. A jump in unemployment could result in a rise in defaults and falling house prices, but things would have to get pretty bad before TD takes a material hit.

A $10,000 investment in TD just 25 years ago would be worth about $320,000 today with the dividends reinvested.

Enbridge

Enbridge (TSX:ENB) (NYSE:ENB) operates North America's largest energy infrastructure network with pipelines in Canada and the United States carrying oil, natural gas, and gas liquids from producers to their customers.

Enbridge also owns utility companies that distribute natural gas to homes and commercial clients. Its vast gas storage facilities are valuable assets, and Enbride's renewable energy division continues to grow with solar, wind, geothermal, and hydroelectric facilities.

The company went through a strategy shift in the past couple of years with the sale of roughly $8 billion in non-core assets. The new focus on regulated businesses provides reliable and predictable cash flow and Enbridge has the means to fund ongoing development projects without adding new debt or issuing additional stock.

The share price has enjoyed a nice recovery in the past year, and the good news continues. Enbridge's dividend should rise in step with anticipated annual increases in distributable free cash flow of 5-7%. The existing payout provides a yield of 5.9%.

A $10,000 investment in Enbridge 25 years ago would be worth about $365,000 today with the dividends reinvested.

The bottom line

TD and Enbridge are leaders in their industries and should continue to be solid picks for a balanced TFSA retirement fund focused on top dividend stocks.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:ENB (Enbridge Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

Date
2025/07/02
Date Created
2020/02/03
Author
aswalker