Top Dividend Stocks: 2 for TFSA Investors

Description

The Tax-Free Savings Account (TFSA) is one of the best tools for Canadian investors to utilize. By purchasing top dividend stocks in a TFSA, investors can capture higher returns.

This is because compounding works hand in hand with the tax savings to keep putting money in the investor's pocket. At the end of the day, no one likes bleeding out investment gains to taxes.

Now, with the stock market in a fairly volatile state, there are chances to pick up top dividend stocks for cheap. In doing so, investors can secure attractive yields.

Today, we'll look at two such TSX stocks that investors should keep an eye on.

Top dividend stock: Scotiabank

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is Canada's third-largest bank by market cap. It provides a series of products and services to customers across multiple countries.

It differentiates itself from other Canadian banks with its footprint in the Latin American market. Scotiabank is growing its presence there, and nearly a third of its revenues now come from outside Canada.

In the short term, some may view that as a risk since those economies tend to rely on commodities. However, the long-term growth potential is there and should out outweigh those risks for long-run investors.

As of writing, this top dividend stock is trading at $52.97 and yielding 6.8%. That yield should be mouth-watering for dividend-hungry investors.

Scotiabank's P/E is lower than its trailing counterpart, and the yield currently exceeds the trailing five-year average by quite a bit. As such, it seems this stock is offering solid value to investors in it for the long haul.

At that yield, and with very modest growth rate assumptions, a TFSA investor could turn $5,000 into over $30,000 in 20 years with Scotiabank.

Top dividend stock: CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is another major Canadian bank. Like with Scotiabank, CIBC has a wide range of cash flow streams.

One way this top dividend stock is notably different than the other banks is in its approach to the domestic housing market. It's much more exposed to that market than its counterparts.

If you think there's a housing crash ahead, then CIBC could be in more trouble than its peers. With the economy nearly halted for months already, this could very well be the case.

Once again, however, investors looking at a long investment horizon might be less concerned with that risk. But it might mean that now isn't the perfect time to dive head-first into CIBC stock.

As of writing, this top dividend stock is trading at $82.53 and yielding a whopping 7.07%. That yield might be what can draw investors toward CIBC given its additional risks.

With that yield, plus assuming modest growth rates, $5,000 invested in a TFSA could turn into over $31,000 in 20 years with CIBC.

The bottom line

For TFSA investors seeking long-term returns, buying top dividend stocks for cheap is the way to go.

Scotiabank and CIBC are both high-quality options when it comes to this investment strategy. Both face risks in the near term, but in the long run, sentiments should still be largely positive.

Both of these stocks offer outsized yields and solid value to investors. If you have extra cash in a TFSA, keep these top dividend stocks on your shopping list.

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