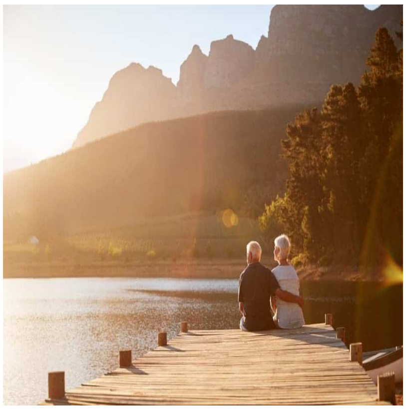

TFSA Income Fund: 2 Top Dividend Stocks for Retirees

Description

Income investors are turning to quality dividend stocks to boost the returns they get on their savings.

High-yield opportunities

The days of getting decent returns on a savings account or a GIC are long gone. Interest paid on bank account balances is at or near zero. GICs from the big Canadian banks currently offer less than 2%.

As a result, dividend stocks are back in focus for retirees who need to generate additional income. Stocks come with risk, as the market has shown in recent months, but buy-and-hold investors also have an opportunity to pick up top-quality stocks today that pay above-average dividend yields.

Let's take a look at two companies that might be interesting picks right now for a TFSA income fund.

BCE

BCE (TSX:BCE)(NYSE:BCE) is a long-time favourite among retirees. That should continue to be the case.

The communications giant enjoys a wide competitive moat and generates steady revenue from its wireless and wireline network businesses. Media revenue is taking a hit during the pandemic, but that should rebound, as the economy recovers and the sports leagues get back on track.

BCE invests billions of dollars to ensure it meets growing broadband demand. The network infrastructure is proving its world-class value during the pandemic as millions of Canadians work from home.

BCE and its peers regularly receive complaints about high fees. The government has indicated it plans to force lower rates. The communications service providers argue that the charges paid by Canadians are required to cover the costs of investing in leading-edge network infrastructure. The reliability of mobile and internet access in recent months could reduce the risk that the government will push BCE and the other service providers to drastically reduce fees.

BCE generates adequate free cash flow to support the dividend. Investors who buy today can pick up a solid 5.9% yield.

CIBC

CIBC (TSX:CM)(NYSE:CM) is Canada's fifth-largest bank by market capitalization. The stock traditionally trades at a discount to its larger peers. This is due to market concerns that the bank is too reliant on Canada for its revenue stream and earnings.

CIBC made moves in recent years to diversify the operations. The company spent more than US$5 billion on acquisitions in the United States. Additional expansion south of the border could occur in the coming years.

CIBC's exposure to the Canadian residential housing market is larger than that of its peers. A steep increase in defaults and a plunge in house prices would be negative. CIBC and the other banks already set aside large provisions for credit losses in fiscal Q2 2020. The banks have provided deferrals on about 15% of total mortgages as well as on other loans.

Some uncertainty remains on how quickly the economy will recover, but there should be a decent rebound next year. Overall, CIBC has a strong capital position and remains very profitable.

Most of the bad news is likely priced in at this point. Additional downside in the stock would provide a good opportunity to add to the position. The dividend should be safe and now offers a yield of 6.3%.

The bottom line

BCE and CIBC offer attractive dividends and should be decent picks for a buy-and-hold TFSA income fund. If you have some cash on the sidelines, these stocks deserve to be on your radar.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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2. NYSE:CM (Canadian Imperial Bank of Commerce)
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aswalker