Have $10,000? Here Is How You Can Grow it in Your TFSA

Description

One of the biggest challenges for young investors is starting their saving journey when they don't have much to save. Luckily, we have Tax-Free Savings Accounts (TFSA) in Canada.

This savings vehicle, which was introduced to help investors earn tax-free returns on their savings, has become so popular that since its inception in 2008, more than 14 million people have used it.

Some of the biggest advantages of investing through TFSA is that your capital gains are tax free, and you can take out your funds anytime without incurring tax liabilities. With these benefits, your overall TFSA limit remains the same.

Once you have decided to start investing through your TFSA, the next challenge is to find investments that offer decent returns. You can put your money in high-return savings accounts or invest in other fixed-income assets, such as GICs. But investing in these saving avenues won't get anywhere in this extremely low-rate environment.

The best GIC rate these days is 2.45% if you invest for five years, according to ratehub.com. To be honest, I don't like investing in fixed-income savings products, because they pay you so little for your money.

Dividend stocks for a TFSA

If you really want to make a meaningful contribution towards your retirement or savings goals, then you should buy solid dividend stocks. The companies that pay regular and growing payouts make a strong case for your TFSA dollars.

Today, I will give you two examples of solid dividend stocks that you can have in your portfolio over the long run.

Royal Bank of Canada (TSX:RY)(NYSE:RY), the nation's largest lender, distributes between 40% and 50% of its income to shareholders each year. At the current price, you can earn 4.68% in annual dividend yield from this top lender and remain invested over the long run.

If you're a young investor and have many years until retirement, any market plunge is your chance to buy stocks cheap. RBC stock, for example, was yielding about 3% six months ago. But after the COVID-19 pullback, that yield has become much more attractive.

Just like banks, telecom and power utilities offer another high-yielding avenue for young investors to make a better return. The recent weakness in markets has made Canada's largest telecom operator, **BCE** (TSX:BCE)(NYSE:BCE) more attractive for young investors who want above-average returns under their TFSA.

BCE now yields 5.97%, offering one of the best dividend yields one can get from a quality stock in an environment when saving accounts are offering close to zilch.

As per the company's dividend policy, BCE distributes between 65% and 75% of its free cash flow in payouts. In line with this policy, BCE has increased its annual payout by more than 100% during the past decade; the payout is now at $0.8325 per share, paid quarterly.

Bottom line

If you follow a disciplined investment approach, pick solid dividend-paying stocks and hold them for a long time, you will see your investment will grow quickly. And if you're young, the market volatility is your friend.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:BCE (BCE Inc.)
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