TFSA Investors: 2 Top Dividend Stocks to Buy With an Extra $5,000

Description

Canadians who maintained their employment in recent months might find more money sitting in their accounts today than in previous years.

Why?

Restaurants, bars, gyms, and yoga studios eat up a good chunk of many people's regular budgets. Extended closures unfortunately eliminated most of these expenses. In addition, the regular holiday to an international destination is likely on hold.

As a result, people are discovering they have extra funds available.

The best use of the new windfall is the reduction of debt. Credit card balances should be the first priority followed by other high-interest loans. If you have debt under control, the next option could be a boost to your TFSA retirement fund.

TFSA benefits

The TFSA is attractive for a number of reasons. First, the funds can grow tax-free. This means the full value of dividends can be used for added income or reinvested to by additional stock. Capital gains can go straight into your pocket as well. The TFSA also provides flexibility. The funds can be removed at any time, and there is no penalty or tax hit.

This gives investors freedom to use the money for emergencies or to make an asset purchase, such as a property, if market prices drop as predicted in the next couple of years.

Let's take a look at two top Canadian dividend stocks that appear cheap right now and offer great returns.

CIBC

CIBC is Canada's fifth-largest bank with a market capitalization of $40 billion. The stock trades near $91 per share at the time of writing. It dipped below $68 during the worst of the plunge in March and traded above $110 in February.

At the current price, CIBC offers a 6.4% dividend yield.

Risks remain for the banks, especially if unemployment remains high and loan defaults soar. That said, things appear to be moving in a positive direction. The U.S. just reported a surprise jump in job gains for June. If that trend continues and the Canadian market sees similar results, CIBC might not take as big a hit on loan-loss provisions as previously expected.

The bank has a strong capital position, and the dividend should be safe.

Enbridge

Enbridge transports 24% of all crude oil produced in the U.S. and Canada, including more than 60% of the U.S.-bound Canadian production. The company also moves about 19% of all natural gas used in the United States.

The liquids pipelines saw a drop in throughput in Q1 and Q2, but the reopening of the economy should boost fuel demand. Enbridge's natural gas and renewable energy operations have remained relatively unaffected by the pandemic.

The stock trades at the current price of $41.50 per share and provides a nice 7.75% yield. Enbridge traded above $57 in February, so there is decent upside potential on a rebound.

The bottom line

CIBC and Enbridge appear cheap today and offer TFSA investors great yield with a shot at some big capital gains in the next few years.

If you have some extra cash sitting on the sidelines, these stocks deserve to be on your TFSA radar.

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1. Bank Stocks
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1. Editor's Choice

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