2 Top Dividend Stocks Yielding 6% to Buy With a $6,000 TFSA Contribution

Description

Canadian savers want to get the best return possible on their TFSA investments.

TFSA advantage

The TFSA is a great tool for investors of all ages. Anyone resident who is at least 18 years old has TFSA contribution space. The TFSA limit increased by $6,000 in 2020, and the maximum cumulative amount is now $69,500.

Younger investors often set aside the limit each year to make the contribution as part of a long-term savings goal. When investors buy top dividend stocks and use the distributions to acquire more shares, they harness the power of compounding. This can turn small initial investments into a large retirement fund over time.

Older investors, including retirees, might use the TFSA to generate tax-free income. Rather than using dividends to buy new shares, the distributions are removed to supplement other pension income, including CPP and OAS. Interestingly, the CRA does not count TFSA earnings towards the personal income calculation used to determine OAS clawbacks.

Let’s take a look at two Canadian dividend stocks that appear cheap right now and should be solid picks for a TFSA portfolio.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is Canada’s third-largest bank by market capitalization. The stock is down from $74 in February to $55 at the time of writing. This puts the current dividend yield at 6.5%.

The pandemic lockdowns forced thousands of Canadian businesses to close, resulting in an unprecedented wave of layoffs. Official unemployment hit 13% in April, and economists have different views on how quickly the job market will recover.

The banks set aside large provisions for credit losses in the last round of results. A V-shaped recovery could result in lower-than-expected losses. A slow recovery that sees unemployment remain elevated through the end of 2021 would likely push loan defaults higher.

The near-term outlook remains uncertain, but Bank of Nova Scotia survived every other major financial crisis in the past century and is still very profitable. The bank has a strong capital position, and the dividend should be safe.

Investors who buy now can pick up a great yield and have a shot at attractive capital gains.

BCE

BCE (TSX:BCE)(NYSE:BCE) is Canada's largest communications firm. The company operates world-class wireless and wireline networks across the country. BCE also has a media division that includes a television network, sports teams, radio stations. In addition, BCE sells a variety of products through its retail operations.

Sports teams and stores took a beating in the second quarter. It will take some time for the operations to get back to normal. However, BCE gets most its revenue from the core network operations. Mobile and internet data demand is up considerably due to the lockdowns. BCE allowed unlimited internet use through the end of Q2 but ended the provision at the beginning of July. The Q3 results might show a surge of plan upgrades as a result.

The stock trades near $56 compared to a 12-month high of $65. Investors who start a position today can pick up a 6% yield.

The bottom line

Bank of Nova Scotia and BCE are top-quality companies with long track records of dividend growth. The stocks appear somewhat oversold today and pay great dividends. If you are searching for top TFSA picks for your dividend fund, these stocks deserve to be on your radar.

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