TFSA Savers: Sick of Low Interest Rates? 2 Great Dividend Stocks to Buy and Hold

Description

Your Tax-Free Savings Account (TFSA) is a terrible thing to waste. If you're one of many Canadians who's opted to use the invaluable tax-free wealth-compounding account as a mere savings account in an era of rock-bottom interest rates, you're leaving a lot on the table and can do so much better with some undervalued, defensive dividend stocks that are capable of outshining your TFSA cash holdings that generate nearly zero in interest.

So, instead of settling for almost negligible returns with risk-free assets at today's market crossroads, consider the following three stocks to form a dividend-heavy foundation for your TFSA retirement fund.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) took on a brunt of the damage amid the coronavirus sell-off. The company has more than its fair share of commercial loans to some of the weaker parts of the Canadian and U.S. economies. As a result, the loan book has been under a considerable amount of pressure, as COVID-19-induced disruptions have taken a toll.

If specific geographies don't keep up with efforts to contain the insidious coronavirus, such as social-distancing practices, mandatory mask mandates, and sufficient testing volumes, COVID-19 cases could pop. Given most health experts, including Dr. Anthony Fauci, are of the belief that it could take until next year to have an effective vaccine approved, investors should expect pressures to continue weighing BMO and the big banks for at least another year.

That said, BMO stock is severely discounted, with shares trading at near book value. While BMO's commercial loan book in a sore spot amid this pandemic, I'm a massive fan of the name relative to its peers because of its depressed valuation and its below-average exposure to Canada's frothy housing market. For those looking to buy and hold a terrific business at a discount, BMO and its juicy 5.4% dividend yield are ripe for picking for your TFSA, as the banks look to recover from this crisis.

Emera

Emera (TSX:EMA) is a defensive dividend stock that I like to view as a bond proxy. Shares of the "boring" utility have a rock-bottom beta of 0.2. That means the stock is less correlated to the broader stock market and is more likely to zig when the markets zag. That means you won't feel the full impact of the next market crash or run-of-the-mill correction. And if a worst-case scenario unfolds with this pandemic, Emera's 4.5%-yielding dividends is going to hold up, even if another wave of COVID-19 causes dividend reductions to become the new norm.

Over the years, Emera has gravitated towards more predictable regulated operations. A higher degree of regulation means less room for surprises. And fewer surprises mean the stock ought to be worth a bit more through the eyes of conservative TFSA investors. As Emera continues increasing its regulated mix of assets, I suspect a modest amount of multiple expansion could be in the cards over time.

Today, the price of admission into the defensive utility is quite low, with shares trading at a mere 2.3 times sales.

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3. TSX:EMA (Emera Incorporated)

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