TFSA Investing: 2 Dividend Stars to Buy!

Description

Canadians can take advantage of the Tax-Free Savings Account (TFSA) to help their investments grow. All capital gains and dividends received within the TFSA investing account are not subject to tax.

So, those savings compound over time and end up making a big difference for investors. Using a TFSA often means more money in the pocket of the investor, and everyone likes that.

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Now, when selecting stocks for TFSA investing, a reliable dividend is typically a desirable trait. This is because over time, that dividend can compound tax-free to grow the investment exponentially.

Since the TFSA has limited contribution room, and you don't get any back when realizing a loss, it's usually best to stick with more steady stocks. These are typically passive-income machines or just blue-chip stocks in general.

Today, we'll look at two dividend stars that are perfect for TFSA investing.

BCE

BCE (TSX:BCE)(NYSE:BCE) is a massive Canadian holding company for the various Bell Canada companies including Bell Media. Through its subsidiaries, it provides a wide range of telecom and media services to its customers.

This blue-chip giant has long been a favourite among Canadian dividend investors. It typically pays an attractive yield that's backed up by its steady growth and stability.

As of this writing, it's trading at $56.75 and yielding 5.87%. Given the five-year average yield sits at 5.03%, it's offering a fairly juicy yield.

Of course, BCE has had its share of setbacks this year, and that yield is accompanied by a 130.56% payout ratio. While BCE typically runs with a fairly high payout ratio, it still keeps it under 100% in normal circumstances.

Now, that doesn't mean that this TFSA investing stock is due for a dividend cut immediately. The economy could begin recovering next year, and cost-reduction methods could ease the burden a bit as well.

For those focused on dividends when it comes to TFSA investing, it's hard to beat a 5.87% yield tied to a telecom giant like BCE.

TD Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a banking giant with the second-highest market cap among the major Canadian banks. It's long been a favourite among investors seeking reliable blue-chip stocks with steady dividends.

TD makes for an ideal TFSA investing stock, because it couples stable growth with dependable dividends. In fact, it's paid its dividend to investors every year since 1857.

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So, while 2020 offers its own challenges, TD has shown it has the resiliency needed to push forward. It's long been committed to paying its investors a stable yield.

For long-term TFSA investing, that's a recipe for success. Over time, consistent dividends and growth from a stock like TD coupled with TFSA tax savings could generate huge total returns.

While revenue growth is still in the negative figures, TD's payout ratio is just shy of 60%. So, there doesn't seem to be much to worry about when it comes to this stock's dividend.

Even with potential bumps in the road in the short term, sentiments should still be positive for the long-term outlook of one of Canada's biggest names in banking.

As of this writing, TD is trading at $68.41 and yielding 4.62%. When a stock like TD is sporting a nearly 5% yield, that's good news for those looking at TFSA investing.

TFSA investing strategy

Both BCE and TD can be crucial components of a TFSA investing plan. They both offer decent value to investors with solid yields.

While these stocks might not blow the roof off in terms of straight up share price growth, they can deliver exceptional total returns in a TFSA in the long run.

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