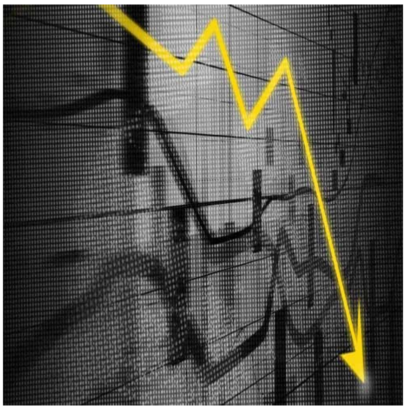

Market Crash Alert: 2 Top Dividend Stocks to Buy for a TFSA in 2021

Description

The stock market might be headed for another crash in the coming weeks. This would give TFSA investors who missed the 2020 rally another chance to buy top dividend stocks at cheap prices.

Market outlook for 2021

The stock market in the United States appears overvalued on pretty much any metric. The average long-term price-to-earnings multiple for the **S&P 500** is about 16.5 times.

At the time of writing, the S&P 500 sits close to 3,700. With analyst earnings expectations averaging about $170 for the index in 2021, this puts the current multiple at 21.76 times expected earnings.

That means the S&P 500 currently trades more than 30% above the historical average.

Low interest rates can account for some of the froth. Investors can't get adequate returns on fixed-income investments, so more money is chasing yield in the stock market. Cheap borrowing rates can also help reduce corporate debt costs and free up more cash for investors in the form of dividends and share buybacks.

The extraordinary rate environment has to be taken into consideration, but the market still appears expensive.

The second COVID wave threatens to derail the economic recovery in 2021, even as vaccines start to roll out. New lockdowns in the U.K., mainland Europe, Canada, and the United States could delay the rebound in the employment markets. At the same time, government aid is scheduled to pull back and deferrals on loan payments are expiring. This sets the economy up for a rough spell until vaccines become broadly available to the general public.

The stock market is always forward-thinking, but the current euphoria warrants caution. TFSA investors should prepare for another market crash.

Top dividend stocks to buy on a market correction

Market corrections present buying opportunities. Top Canadian dividend stocks regained lost ground in recent months, but many still trade well below the 12-month highs. Any downside on a new pullback should provide TFSA dividend investors with attractive entry points on some of Canada's best dividend stocks.

Let's take a look at **Fortis** (TSX:FTS)(NYSE:FTS) and **BCE** (TSX:BCE)(NYSE:BCE) to see why they might be interesting picks for a TFSA heading into 2021.

Is Fortis stock a good buy for a TFSA now?

Fortis owns power generation, electricity transmission, and natural gas distribution businesses in Canada, the United States, and the Caribbean. Revenue primarily comes from regulated assets, meaning cash flow is normally predictable and reliable.

Fortis has a $19.6 billion capital program on the go to expand the rate base and drive up cash flow in the coming years. As a result, the board intends to raise the dividend by an average annual rate of 6% through 2025. That's great news for TFSA income investors.

Fortis increased the distribution in each of the past 47 years, so the guidance should be solid.

Fortis trades near $52 per share and provides a 3.9% dividend yield. The 12-month high on the stock is $59. Any drop back toward $50 per share should be a good entry point.

Should BCE stock be on your 2021 TFSA buy list?

BCE trades near $54.50 per share at the time of writing and offers an attractive 6% dividend yield. The stock price hit $65 earlier this year, so investors have decent upside potential when the economy starts to get back to normal.

BCE has a wide competitive moat. The company is large enough that it can raise prices when it needs extra cash and continues to invest in network upgrades to protect its leadership position in the market. Free cash flow is adequate to support the generous payout, and investors should see distribution growth next year.

A market correction could pull the stock back down toward the $50 mark. This would be a great opportunity for buy-and-hold dividend investors to add BCE stock to their TFSA portfolios.

The bottom line

Market corrections give TFSA investors an opportunity to buy great dividend stocks at discounted prices. If you have some cash on the sidelines, Fortis and BCE deserve to be on your radar.

The **TSX Index** is home to several top dividend stocks that still appear oversold and should be attractive picks during the next market pullback.

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