TFSA Investors: How 2 Top Dividend Stocks Turned $20,000 Into $470,000

Description

TFSA investors have an extra $6,000 in contribution space in 2021. With stock markets at record highs, it makes sense to take a conservative approach when buying new stocks for the TFSA fund.

Why dividend stocks are good TFSA buys now

Top dividend stocks generally ride out a correction or market crash better than growth plays. The rally off the 2020 lows has major indexes trading at historically high multiples. The stock market always looks forward and the economy should rebound strongly in the second half of 2021. Nonetheless, the current exuberance might be overdone. Earnings expectations could be too optimistic with new COVID lockdowns likely to hit the economic recovery in the first part of the year.

December jobs data in Canada and the United States showed the first monthly net job losses since April. The trend could continue for January and possibly into February.

A market correction should be expected. As a result, top dividend stocks might be the way to go with new TFSA investments. In the event the market falls and the share prices dip, you get paid well to ride out the pullback or can use the distributions to buy more shares.

Why TD Bank stock deserves to be on your TFSA buy list

The Canadian banks are sitting on billions of dollars in extra cash they set aside to ride out the pandemic. Government aid helped Canada and the United States avoid the worst-case economic scenarios, and the banks will look to put the surplus money to work. **TD** (TSX:TD) (NYSE:TD) has a large presence in the United States and could take advantage of its strong capital position and cheap borrowing to make an acquisition to drive growth.

In addition, yields on U.S. 10-year bonds are back above 1% for the first time since last March.Analysts say the upward trend in the 10-year treasury yield should continue through 2021 and into nextyear. That's generally positive for banks.

TD stock isn't as cheap as it was during the crash, but TFSA investors could see a big dividend hike in the later part of the year when the government is expected to allow the banks to resume distribution hikes. Aggressive share buybacks could also be on the way.

TD currently provides a 4.3% yield.

Long-term holders of TD have enjoyed great returns. A $10,000 investment in TD stock 25 years ago would be worth $275,000 today with the dividend reinvested.

Should you buy Fortis stock now?

Fortis (TSX:FTS)(NYSE:FTS) raised the dividend in each of the past 47 years. The board intends to boost the payout by an average annual rate of 6% through 2025. This is great guidance for TFSA dividend investors during uncertain times.

Fortis is working on a $19.6 billion capital program to drive revenue growth. The company also has a strong track record of making successful strategic acquisitions. Cheap borrowing costs help fund development projects. The reduced debt payments free up more cash to pay to shareholders.

As with TD, Fortis has performed well for buy-and-hold investors. A $10,000 investment in the stock 25 years ago would be worth $195,000 today with the dividends reinvested.

Fortis stock appears oversold right now, giving investors a chance to pick up the shares at a great price.

The bottom line

TD and Fortis are two of Canada's top dividend-growth stocks and should be solid picks for TFSA portfolio today. If you only buy one, I would make Fortis the first pick.

The **TSX Index** is home to many top dividend stocks, like Fortis, that still appear attractively priced right now.

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aswalker