Beginner Investors: 1 Top Dividend Stock to Start Your TFSA Investment Fund

Description

Many beginner TFSA (Tax-Free Savings Account) investors were likely rattled last week. Bond yields crept higher, and inflation fears picked up again, causing a vicious sell-off across the growthiest of stocks.

The whole growth-to-value rotation was definitely a source of confusion for new investors, to say the least. While bond yields are, in fact, bad news for most of the higher-growth companies out there, it's important to remember that bond yields, historically, are still near the floor.

I think that makes the recent 0.5% jump in 10-year U.S. Treasury yield less remarkable than most others made it out to be. In the grander scheme of things, yields are still meagre. Although they're not on the floor anymore, fixed-income debt securities still make for an unrewarding asset class for beginner investors looking to grow their wealth.

TFSA investors take note: Warren Buffett still isn't a huge fan of bonds

Just take a look at Warren Buffett's asset allocation, and you'll discover his distaste for fixed-income debt securities. His bond exposure has gone down over the years, and his cash pile has gone up. He favours a mix of undervalued defensive dividend stocks and cash over unrewarding bonds, which I don't think make as much sense to hold anymore.

Could the traditional 60/40 (stocks-to-bonds) ratio be dead? Possibly. By holding government bonds, with yields south of the 2% mark, you'll likely stand to lose a considerable amount of purchasing power over time thanks to inflation, which could be on the rise.

Talk about a dual meaning with such "guaranteed" risk-free investments!

They're guaranteed in that you'll get your invested principal back at the end of the term. But you'll also be guaranteed to lose purchasing power over prolonged periods of time. Indeed, the case for owning stocks with your TFSA has never been higher, especially for beginner TFSA investors who have years, if not decades, to invest.

In this piece, we'll have a look at two dividend stocks that beginners and bond investors may wish to gravitate to if they're finally fed up with unrewarding yields. You can either settle or adapt with the times. While the 1.5% yield on the 10-year U.S. Treasury is marginally better than it was a few months ago, it's not much better. As such, I'd still stick with high-quality dividend stocks, especially if they continue to be dragged down over the coming weeks and months over rising bond yield jitters.

Finding value in bond proxies

Without further ado, consider **Hydro One** (TSX:H), a great high-yield stock that can put bonds to shame. The low-beta bond proxy is a great way for reluctant beginner investors to dip their toes into the equity markets.

The stock has fallen under pressure in recent months, and I think the recent +10% sell-off has been overdone, representing a terrific dip-buying opportunity for yield-hungry, value-conscious TFSA investors.

Hydro One essentially has a virtual monopoly over Ontario's transmission lines. With some of the highest barriers to entry surrounding its operating cash flow stream, the company tends to be little rattled by whatever seems to be troubling the broader equity markets at any given time. As a result, H stock sports a ridiculously low beta (0.13 five-year beta). The rich 3.8% dividend yield only serves to dampen any volatility further.

Foolish takeaway for beginner investors

Hydro One stock currently trades at 1.5 times book value, making it one of the better bargains in town for beginner TFSA investors who seek a core foundation.

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