New Investors: 3 Dividend Stocks to Start Your TFSA Portfolio Today

Description

The Tax-Free Savings Account (TFSA) is the perfect place to build substantial wealth because investments inside won't be dampened by taxes. You can get tax-free returns from the dividends and price appreciation of dividend stocks.

Right now, you can buy **Fortis** (TSX:FTS)(NYSE:FTS) and **H&R REIT** (TSX:HR.UN) for nice dividend income. Because they're attractively priced along with **Open Text**, you should get outsized long-term total returns across this diversified set of dividend stocks.

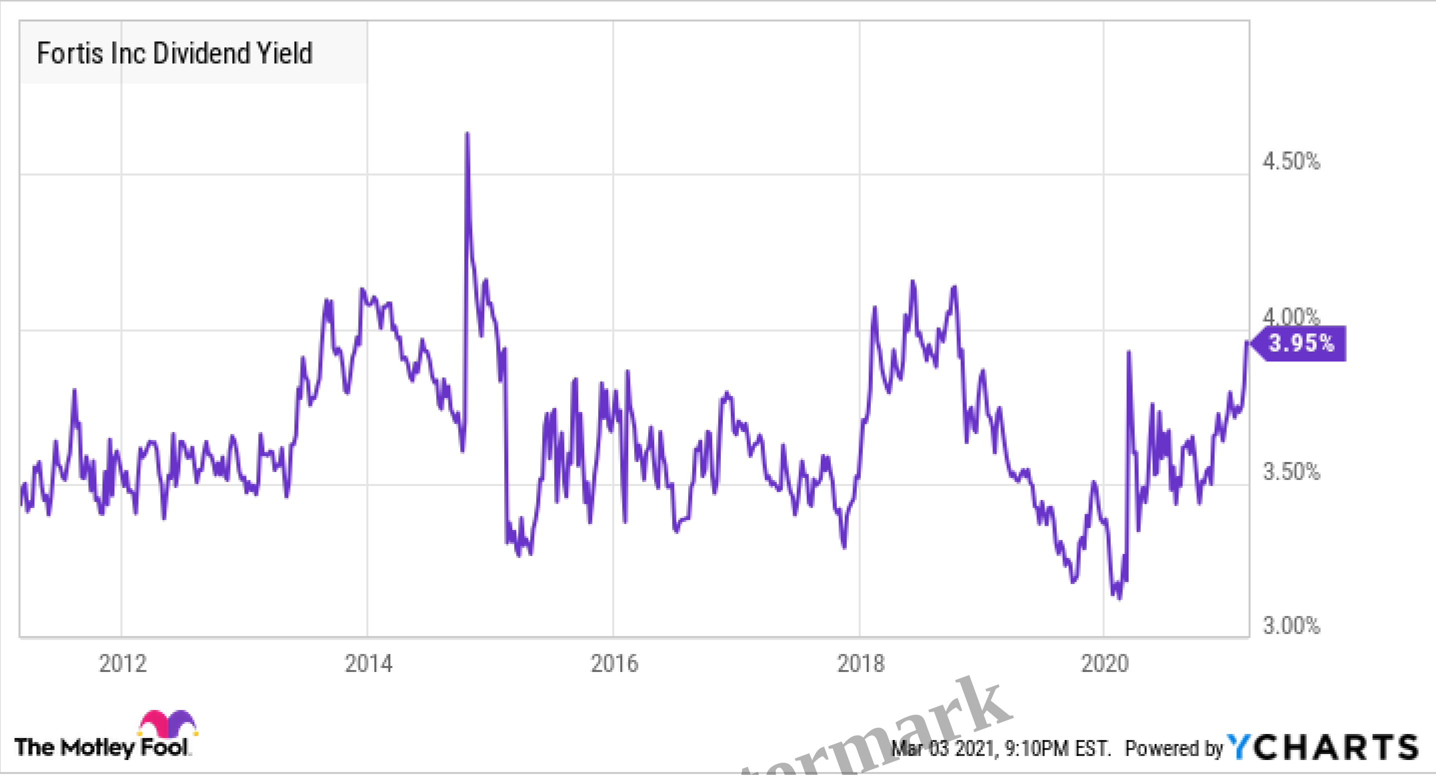
Typically, you would want to have a holding period of at least three to five years to allow the underlying businesses to grow. It could also take time for the market to realize that the stocks are cheap (and bid them up).

Fortis stock

Fortis stock is an excellent choice as one of the first stocks to own for new investors. It is a defensive investment because of its regulated utility operations that provide predictable returns.

Over the years, the utility has become more resilient and diversified. It has expanded its business into the United States, including acquiring a quality electricity transmission company. Today, Fortis's revenues are diversified across 10 utility operations. And it earns more than 60% of its earnings from the United States.

The Canadian Dividend Aristocrat has one of the longest dividend growth streaks among listed companies on the **TSX**. It has increased its dividend for 47 consecutive years and will continue to do so in the foreseeable future. Through 2025, it aims for annual dividend growth of about 6%.



FTS Dividend Yield data by YCharts. Fortis's 10-year dividend yield history.

Its 10-year yield history indicates the stock is attractively priced whenever it yields +4%, the high-end of the range. This defined yield range and a growing dividend imply that the stock price will also steadily rise in relation to the rising dividend.

At $49.71 per share, Fortis stock yields 4.06% and is attractive for tax-free passive income in your TFSA.

H&R REIT for monthly income

H&R REIT appears to be set on the recovery path from the 2020 pandemic market selloff. The diversified REIT's overall rent collection has been resilient with a rent collection of 94% in January 2021.

Its retail portfolio has been the most impacted. It collected 86% of rent in January 2021, while its office, residential, and industrial portfolios saw a stronger rental collection of 96-99%.

Retail properties make up about 30% of H&R REIT's portfolio based on the fair values of the properties. They are the main component that's weighing on the stock.

As of writing, H&R REIT provides a yield of close to 5% that's paid out as monthly cash distributions, which is convenient for those seeking passive income.

A low-yield, high-growth dividend stock

Low-yield dividend stocks like Open Text could grow faster and deliver extraordinary total returns. These stocks can complement slower growth but higher yield stocks like Fortis and H&R REIT.

For example, although Open Text yields about 1.8%, its five-year dividend growth rate is about 14%. Therefore, investors can grow their income and investment at a faster rate with Open Text than the likes of Fortis and H&R REIT.

The Foolish takeaway

Among the three dividend stocks, based on an equal-weight portfolio, new investors can get an average dividend yield of 3.6%. On a $15,000 investment, one would get $540 of passive income a year. Moreover, that income will increase faster than inflation.

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1. Dividend Stocks
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2. TSX:FTS (Fortis Inc.)
3. TSX:HR.UN (H&R Real Estate Investment Trust)

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Date
2025/09/12
Date Created
2021/03/04
Author

kayng