TFSA Investors: Choose These 3 Dividend Aristocrats for Tax-Free Income

Description

When people first start getting into the stock market, it's often because they find the concept of making money while you sleep very appealing. One way you can work towards that is by investing in dividend stocks. These are stocks that pay shareholders on a regular basis in exchange for holding shares in the company. If you hold dividend stocks in a TFSA, then all the income you generate will be tax free. That could be very beneficial in the long run. Here are three dividend stocks you should hold in a TFSA.

Stock 1: Fortis

When looking for stocks to hold in a TFSA, investors should look for companies that have a long history of increasing dividends. The Canadian Dividend Aristocrats list provides investors with a list of all **TSX**-listed stocks that have not only paid dividends for the past five years but have also managed to increase distributions over that period. Ranking in second place on the list, investors can find **Fortis** (TSX:FTS)(NYSE:FTS).

With a dividend-growth streak of 47 years, Fortis holds the second-longest active dividend-growth streak in Canada. The company provides regulated gas and electric utilities to more than 3.4 million customers across Canada, the U.S., and the Caribbean. The driving force behind Fortis's long dividend-growth streak may be the recession-proof nature of its business. Regardless of what the economic situation may be, demand for gas and electric utilities won't disappear.

This gives Fortis a reliable and predictable source of revenue. In turn, the company should be able to continue paying dividends for the foreseeable future. Fortis stock currently offers investors a forward dividend yield of 3.64%.

Stock 2: Bank of Nova Scotia

Speaking of reliable businesses, the Canadian banking industry may feature some of the most reliable companies in the country. The Canadian banking industry is highly regulated. That makes it difficult for smaller competitors to disrupt the industry leaders. As a result, the companies atop the Canadian banking industry have established formidable moats and are known as excellent dividend payers.

Of the Big Five Canadian banks, my top choice is **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). I like this company more than its peers, because of its geographic diversification. Bank of Nova Scotia operates about 2,000 branches and offices in 50 countries. This diversification allows Bank of Nova Scotia to seek more growth opportunities and protects it from economic uncertainty if a recession were to occur in one or two regions. Bank of Nova Scotia stock has a forward yield of 4.37%.

Stock 3: Canadian National Railway

Finally, investors should consider investing in **Canadian National Railway** (TSX:CNR)(NYSE:CNI). Because we have no way to transport large amounts of goods over long distances, the railway industry remains in high demand today. More importantly, Canadian National is the third-largest railway company in North America (by revenue). This speaks volumes regarding the company's competitive positioning within the broader railway industry.

Canadian National has managed to grow its dividend at a CAGR of about 8.3% over the past five years. More importantly, the company is known for its 25-year dividend-growth streak. That makes it one of 11 companies in Canada that would qualify as a Dividend Aristocrat in the United States. Canadian National stock offers a forward yield of 1.58%. Although that's noticeably lower than the yield of Fortis and Bank of Nova Scotia, its payout ratio is also low at 36.5%. This suggests that Canadian National will be able to continue raising its distribution over the coming years.

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2. NYSE:CNI (Canadian National Railway Company)
3. NYSE:FTS (Fortis Inc.)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:CNR (Canadian National Railway Company)
6. TSX:FTS (Fortis Inc.)

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Date
2025/09/05
Date Created
2022/01/11
Author
jedlloren