3 Dividend Stocks Investors Should Hold in a TFSA

Description

It's a bit of an understatement to say that dividend stocks have greatly outperformed growth stocks so far in 2022. While many popular growth stocks have fallen more than 20%, many dividend stocks are holding onto flat performances, and, in some cases, even gaining more than 10%. As an added benefit, dividend stocks could provide investors with a steady stream of income.

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Whichever way you look at it, there are positives in holding shares of dividend stocks in your TFSA, even if they tend to perform more modestly than growth stocks over the long term. Here are three dividend stocks investors should hold in a TFSA!

It's time to buy the banks

Interest rates are expected to rise several times in 2022. While that could be bad for growth stocks, it could be very beneficial for financial companies. In fact, bank stocks tend to perform more strongly in high-interest environments. This is because banks often see profit margins widen as interest rates rise. In Canada, the banking industry is heavily dominated by five companies. Of that group, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is my top pick.

Although investors really can't go wrong choosing any of the Big Five banks, I prefer Bank of Nova Scotia for its geographical diversification. With 2,000 branches and offices across 50 countries, it is known as Canada's most international bank. This diversification could provide the company with some stability if one region is hit with economic uncertainty. With respect to its dividend, Bank of Nova Scotia offers a forward dividend yield of 4.29%. An excellent dividend payer, this company has successfully paid dividends to shareholders for the past 189 years.

Invest in this industry

Canada's railway industry also led by companies with a very solid moat. **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway** are dominant North American railway companies and two very reliable stocks. In this article, I will focus on the former; however, that doesn't mean that Canadian Pacific wouldn't make a good investment either.

Canadian National is currently Canada's largest railway company in terms of its network size and in revenue. When compared to its peers in the United States, Canadian National still ranks in the top three in terms of annual revenue. An excellent distributor of dividends, Canadian National has managed to increase its distribution in each of the past 25 years. With a payout ratio of 35.7%, the company should be able to comfortably continue raising its dividend in the coming years.

Hold one of Canada's top dividend stocks

The list of Canadian Dividend Aristocrats features many companies that would be worthy of being included in your portfolio. However, if investors had to choose a select few, which is often the case with individual investors, **Fortis** (TSX:FTS)(NYSE:FTS) should be on the shortlist. The company currently holds the second-longest active dividend-growth streak in Canada. It has raised its dividend distribution for the past 47 years.

Fortis is known as a recession-proof company. It provides regulated gas and electric utilities to 3.4 million customers across Canada, the United States, and the Caribbean. This means that its business doesn't tend to experience any major slowdowns during periods of market uncertainty. This stability is reflected in its stock, which has a beta of 0.10. That suggests that Fortis stock is much less volatile than the broader market. In terms of its dividend, Fortis offers investors an attractive forward yield of 3.57%.

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