TFSA Pension: 2 Top Canadian Dividend Stocks to Start a Self-Directed Retirement Fund

Description

The expansion of the gig economy means many Canadians do not have company pensions and are responsible for building their own retirement fund.

One popular strategy involves buying top dividend stocks inside a TFSA and using the distributions to acquire new shares. This sets off a powerful compounding process that can turn small initial investments into substantial retirement savings over time.

TD Bank

TD (TSX:TD)(NYSE:TD) is Canada's second-largest bank by market capitalization. The bank is best known for its expansive retail banking operations in the country, but TD is also a big player in the American market and is about to get even larger.

TD recently announced a US$13.4 billion deal to buy First Horizon. The purchase will add more than 400 branches to TD's existing network that already runs from Maine to Florida along the U.S. east coast. Once completed, the addition of First Horizon will make TD one of the top-six retail banks in the United States.

TD is one of the top dividend-growth stocks in the TSX over the past two decades with a compound annual dividend-growth rate of better than 10%. The board raised the payout by 13% for fiscal 2022. Another generous increase is likely on the way for next year. At the time of writing, TD offers a 3.8% dividend yield.

TD stock trades near $94 per share at the time of writing compared to the 2022 high around $109. The pullback gives investors a chance to buy TD at a reasonable 11.8 times trailing 12-month earnings. Near-term volatility should be expected, but any additional downside should be viewed as an opportunity to add to the position for a buy-and-hold TFSA portfolio.

Buying TD stock on dips has historically proven to be a profitable move over the long run. A $10,000 investment in the stock 25 years ago would be worth about $240,000 today with the dividends reinvested.

Canadian Natural Resources

The rebound in the global energy sector is driving huge profits for **CNRL** (TSX:CNQ)(NYSE:CNQ). The company is currently Canada's largest oil and gas producer with a market capitalization of $97 billion. CNRL probably owns the best resource base in Canada, with a diverse collection of assets that include oil sands, conventional heavy oil, conventional light oil, offshore oil, natural gas liquids, and natural gas production and reserves.

CNRL typically owns its assets rather than partnering with other producers. The strategy carries more risk, but also gives CNRL the flexibility to quickly move capital to the best opportunities across the asset portfolio as commodity prices shift.

The natural gas market, in particular, looks attractive over the coming years. Countries around the world are switching to natural gas from coal and oil to produce electricity. Canadian and U.S. natural gas is viewed as a reliable and safe source and demand is expected to increase as the two countries expand their liquified natural gas (LNG) export capacity.

CNRL recently raised the dividend by 28%. That's on top of a 38% increase last year. The oil and gas market can be volatile, but CNRL has given investors 22 consecutive years of dividend growth with a compound annual dividend-growth rate of 22% over that timeframe.

At the time of writing, the stock provides a 3.6% dividend yield.

The bottom line on top stocks for a TFSA pension

TD and CNRL are leaders in their industries and have great track records of dividend growth. If you have some cash to put to work in a self-directed TFSA retirement fund, these stocks deserve to be on your radar.

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1. Dividend Stocks
2. Investing

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CNQ (Canadian Natural Resources Limited)
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Date
2025/09/05
Date Created
2022/04/15
Author
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