



TFSA Passive Income: 2 Oversold Dividend Stocks for Self-Directed Investors

Description

Retirees and other investors who use their TFSA to generate tax-free passive income finally have an opportunity to buy top-quality [dividend stocks](#) at undervalued prices.

Bank of Nova Scotia

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) trades near \$80 per share at the time of writing compared to \$95 earlier this year. Investors who pick up the stock at the current level can get a 5% dividend yield and simply sit back and wait for the next payout hike.

Bank of Nova Scotia raised the dividend by 11% late last year. Another generous increases should be on the way for 2023, if not sooner. Investors are also benefitting from the increased share-buyback plan. Bank of Nova Scotia recently raised its share-repurchase limit under the current plan by 50% to 36 million common shares.

Bank of Nova Scotia remains very profitable. Rising interest rates should boost net interest margins in the next few years and its international business holds strong long-term growth potential.

A potential recession triggered by aggressive rate hikes at the Bank of Canada and the U.S. Federal Reserve is a risk for Bank of Nova Scotia and its peers. While an economic slowdown is expected, a deep recession is unlikely.

Bank stocks are also under pressure due to concerns about the Canadian housing market. If rising mortgage costs force a wave of selling the banks could see some home prices dip below the values of the mortgages owed on the properties. A market plunge is possible, but housing supply remains tight, and demand is still strong, so any drop in the values of homes should be modest enough to avoid triggering big default hits for the banks.

These issues are now probably fully reflected in the stock price, and Bank of Nova Scotia looks cheap today at just 10 times trailing 12-month earnings.

Telus

Telus ([TSX:T](#))([NYSE:TU](#)) trades near \$31 per share at the time of writing compared to the 2022 high above \$34.50. Investors who buy at the current price can pick up a 4.35% yield and look forward to steady annual distribution increases in the coming years.

Telus has a great track record of bumping up the payout twice per year and recently said that trend will continue through at least 2025 with annual total increases in the 7-10% range. That's solid guidance in the current uncertain market conditions and is great news for TFSA investors who need reliable and growing payouts to boost the passive income they get from their investments.

Telus is making the required investments in fibre optic lines and its new [5G](#) network to protect its competitive advantage and drive future revenue growth.

This is a good stock to buy as a defensive holding for a diversified TFSA income portfolio. Telus provides essential services and has the power to pass rising costs through to its customers. That's an important consideration for investors right now with high inflation hitting margins in some [market sectors](#).

The bottom line on top TFSA stocks for passive income

Bank of Nova Scotia and Telus are top TSX dividend stocks with generous payouts that should continue to grow for years. If you have some cash to put to work in a TFSA focused on passive income, these stocks deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TU (TELUS)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:T (TELUS)

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Date

2025/09/10

Date Created

2022/05/24

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