TFSA Passive Income: 2 Top TSX Stocks to Buy and Never Sell

Description

If you are investing for passive income in your Tax-Free Savings Account (TFSA), you will need to have a long investment horizon. Any withdrawal taken from the TFSA reduces the amount you can contribute in that year. Fortunately, you do earn that contribution space back in the following year.

Be tactical when using your TFSA

However, you do need to be tactical about contributions and withdrawals in the TFSA. I personally like to use the TFSA as a "coffee can" portfolio. When I buy stocks in my TFSA, I plan to tuck them away and never sell them for years and years. I want to use the TFSA to maximize the power of compounding.

Often, the worst enemy to long-term returns is portfolio tinkering and trading. Psychology is one of the biggest factors in investing. If you can resist the urge to "do something" in the short term, you can often drastically improve your investing outcomes over the long term.

The TFSA is great for buy-and-hold investing

The TFSA is a great account for earning passive income and re-investing it. You get to retain 100% of the dividends earned because you pay zero tax. This is a great way to maximize returns over time.

Another great way to maximize returns is to buy quality stocks at attractive valuations. The recent correction is presenting great opportunities on this aspect. Two passive-income stocks I like are below.

TELUS: A defensive stock with growing passive income

TELUS (TSX:T)(NYSE:TU) is trading for $28 today. That is down over 17% since TELUS hit all-time highs in April this year. The market is increasingly becoming worried about a recession, and it is causing even the most defensive stocks to pullback.

TELUS is a defensive passive-income stock. Telecommunication services like cellular coverage and internet are as essential as power and water. Businesses and consumers are willing to pay contracted rates for reliable service.

In return, TELUS enjoys steady streams of cash flows that support its attractive quarterly dividends. TELUS has been working on an outsized capital plan to expand 5G and fibre optic technology across its network. This plan is nearing completion. Afterwards, it expects to generate a tonne of excess cash.

TELUS stock earns a 4.7% dividend yield right now. It just increased its quarterly dividend by 3.4%. It has 10-year history of growing its dividend by 8% annually.

Right now, it targets 7-10% annual dividend growth from 2023 to 2025. For a defensive passive-income stream and decent growth, TELUS is an exceptional business to buy and hold in your TFSA.

CP Rail: A blue-chip compounder with passive income

Canadian Pacific Railway (TSX:CP)(NYSE:CP) is another defensive blue-chip stock to buy and hold for the long term. At $90, its stock is down about 5% in the past month. I will admit, it does not pay a large dividend yield like TELUS. This passive-income stock only earns a 0.85% dividend yield.

However, Canadian Pacific Railway is one of Canada's longest-enduring businesses. It has been in operation since 1881. Its railway network is essential to the North American economy. It ships everything from grain and fertilizer to cars and containers.

It has an amazing history of dividend growth. Since 2005, it has increased its dividend by a compounded annual rate of 11%! Over the past 10 years, its stock has delivered a 500% return (not including dividends). For a combination of passive income and capital growth, this is a wonderful defensive stock to hold in your TFSA.

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Date
2025/08/24
Date Created
2022/07/10
Author
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