



Retirement Wealth: 1 Cheap TSX Stock to Buy Now for a TFSA Pension

Description

The pullback in the stock market this year is providing self-directed TFSA investors with a chance to buy top [TSX](#) dividend stocks at [undervalued](#) prices to build a personal pension fund.

TFSA 101

The government created the TFSA in 2009 to give Canadians a flexible savings option that protect investment income from being taxed. Since inception, the maximum cumulative TFSA contribution space has grown to \$81,500. The TFSA limit increased by \$6,000 in 2022.

Young investors might consider using the TFSA as their primary retirement fund and accumulate RRSP space for use later in their careers, when income should be higher. RRSP contribution reduce taxable income for the relevant year. This has a bigger benefit when a person is in a high marginal tax bracket.

The TFSA also provides good flexibility. Investors can remove funds at any time to cover an emergency. The amount of the withdrawal gets added back to the contribution space in the next calendar year. RRSP withdrawals, in contrast, are subject to a withholding tax.

A balanced portfolio of investments is recommended for a self-directed TFSA pension fund. One popular [investing strategy](#) involves buying top dividend stocks and using the distributions to acquire new shares. This takes advantage of the power of compounding.

TD Bank

TD ([TSX:TD](#))([NYSE:TD](#)) trades for close to \$82 per share at the time of writing compared to \$109 earlier this year. The pullback appears overdone, even with the economy likely headed for a recession in 2023 or 2024.

Rising interest rates are cooling off the housing market. This will slow down loan growth in that

segment of TD's business. However, higher interest rates also tend to push up net interest margins, and this benefit can go a long way to offset some of the negative impacts.

TD is also taking advantage of the large cash hoard it built up over the past two years to make a strategic acquisition. The US\$13.4 billion purchase of **First Horizon** will add more than 400 branches to TD's existing U.S. business and will make TD a top-six bank in the American market. This should drive steady long-term growth and provides an added hedge against any country-specific weakness that might occur in the Canadian operations.

TD raised the dividend by 13% for 2022. The bank is one of the top dividend-growth stocks in the **TSX Index** over the past two decades with a compound annual dividend-growth rate of better than 10%. The current payout provides a yield of 4.3%.

Long-term investors have done well with TD stock. A \$10,000 investment in TD shares 25 years ago would be worth more than \$170,000 today with the dividends reinvested.

The bottom line on top stocks for a TFSA retirement fund

The TSX Index is home to many great companies that now appear oversold. TD is just one example of a top TSX dividend stock that looks cheap today and should deliver attractive dividends and total returns in the coming years. If you have some cash to put to work in a self-directed TFSA pension fund, TD stock deserves to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:TD (The Toronto-Dominion Bank)

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