TFSA Investors: 2 TSX Stocks With Unbelievable Staying Power

Description

When it comes to investing in your Tax-Free Savings Account (TFSA) that provides tax-free growth of your money, you don't want to waste it away by making high-risk investments. Similarly, it would be a waste to take no risk but get low returns in your TFSA. Instead, you might invest in the middle of a risk spectrum by focusing on **TSX** stocks with staying power to get solid growth with below-average risk.

Here are a couple of ideas to invest through retirement (if you want) in your TFSA.

Buy and hold RBC stock in your TFSA

The big Canadian banks are earnings powerhouses, and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) takes the lead in that aspect. RBC has paid dividends for about 152 years. In the trailing 12 months (TTM), among its peers, it generated the most revenue and net income of +$46 billion and +$16 billion, respectively.

The financial system is highly regulated in Canada, which helps protect the solid profits of the Canadian banks. RBC has been making durable and growing profits for the long haul. For example, in the past 10 years, it increased its adjusted earnings per share (EPS) at a compound annual growth rate (CAGR) of 9.5%. Simultaneously, it increased its dividend per share at a lower rate of 7.6% Its TTM payout ratio of 40% is at the low end of its historical payout ratio range and signifies a sustainable dividend.

The diversified bank has businesses across personal and commercial banking, wealth management, capital markets, and insurance, which allow it to make profits through economic cycles with little uncertainty. It typically maintains a return on equity (ROE) in the teens, which means it makes good returns for its stockholders. For example, its five-year ROE is 16.7%. Even in 2020, in an economy that was widely impacted by a pandemic, RBC's ROE was still solidly at 14.1%.

RY stock has delivered annualized returns of about 12% in the last 10 years. At about $128 per share, the bank stock is reasonably valued and offers a dividend yield of 4%. It can potentially achieve total returns of about 11% annually in the long run.

BAM stock also has incredible staying power

Brookfield Asset Management (TSX:BAM.A)(NYSE:BAM) also has a long history — about 57 years long — of paying dividends. The global alternative asset manager has retained most of its earnings to grow the business, but it was still able to increase its dividend at a CAGR of about 8% per year in the past decade. For example, its TTM payout ratio was 38% of earnings.

The company was a business owner and operator much earlier on before it actually meaningfully provided asset-management services for third parties. Its proprietary assets currently represent about US$75 billion of invested capital. Similarly, its asset management business is known to be one of the best in the industry. Management sees that it’s ripe to separate the two by the end of this year.

Specifically, Brookfield plans to spin off 25% in the asset management business and therefore initially retain 75% ownership. Still, the separation can surface value for long-term investors. For example, since the asset management business has substantial free cash flow, it plans to pay a bigger dividend.

At $68.55 per share at writing, the large-cap growth stock yields about 1% and is undervalued.

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