TFSA Passive Income: 3 Top Dividend Stocks to Beat Inflation

Description

When it comes to passive income, the Tax-Free Savings Account (TFSA) is a clear winner of the TFSA vs. Registered Retirement Savings Plan (RRSP) debate. It allows you to create an income stream that doesn't inflate your tax bill, and if you choose the right dividend stocks to invest in, it will also stay ahead of inflation.

The right dividend stocks in this context are Aristocrats that have a history of growing their payouts every year. So, when your expenses grow (due to inflation), your income will also grow alongside them.

A mortgage company

Even though banks dominate the Canadian mortgage markets (both residential and commercial), there are plenty of small players that are servicing Canadians that banks can't or won't sell mortgages to. **First National Financial** (TSX:FN) is one of the top names in this subsection of the market as well as a generous Dividend Aristocrat.

It's currently offering a juicy 6.2% yield, courtesy of a 26% decline from its last peak. The stock is also fairly valued compared to its peers in the financial sector.

But the main reason you should consider adding it to your dividend portfolio, especially if you want your income to keep pace with or, ideally, beat inflation, is its history of growing its payouts. It has grown the payouts for several consecutive years, and the growth between 2019 and 2023 payouts is about 26%.

An energy company

The energy sector is home to a number of Aristocrats, but **TC Pipelines** (TSX:TRP) stands out for multiple reasons, starting with its strong 6.4% yield. Another reason is its business model. Midstream pipeline businesses primarily responsible for transporting extracted oil and gas from point A to point B are usually less vulnerable to fluctuating energy prices compared to their upstream counterparts.

The dividend history of the stock is also a strong point in its favour. It has been growing its payouts for over two decades and has raised its payouts from $0.69 per share to $0.90 in the last five years alone. If you need one more compelling reason to consider this stock, that would be its energy focus — i.e., natural gas, which is far less susceptible to a global sustainability shift (away from fossil) than oil is.

A bank

Canadian bank stocks are a treasure trove for dividend investors, and though all Big Six banks are good picks for dividends, **Bank of Nova Scotia** (TSX:BNS) is currently the clear leader from a yield perspective. The bank is offering a juicy 5.59% yield, partly because it's slow to catch up to the other banks that are on their way up following a market-wide trend.

The bank is also modestly undervalued, and if you buy now, you can capture the rest of the growth trend while locking in a good yield. It's an Aristocrat like most of its peers from the sector and has raised its payouts from $0.83 per share in 2019 to $1.03 per share in 2023. The payout ratio is quite solid as well.

Foolish takeaway

All three dividend stocks offer decent yields and have a history of growing their payouts. At their current yields, you can start a passive income of about $300 a month by investing $20,000 in each company. Assuming the companies maintain their aristocratic structure, you may see a rise in this amount every year.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BNS (Bank Of Nova Scotia)
2. TSX:FN (First National Financial Corporation)
3. TSX:TRP (TC Energy Corporation)

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