Retired bank manager uses ‘blazingly simple’ dividend strategy to generate strong TFSA returns

When Kate, a 71-year-old retiree living in Guelph, Ont., opened her tax-free savings account back in 2009, she wanted to buy stocks and maximize her returns – as long as it didn’t mean going on an emotional roller-coaster ride or sacrificing too much leisure time. She also wanted to “Buy Canadian” to support the Canadian economy.

Kate found her solution in the “blazingly simple” Canadian Essentials Portfolio (CEP), as described in a couple of Globe articles, one published in 2010 and the other in 2018. The portfolio is composed of 10 stocks that could be deemed essential to the Canadian economy.

Years before she adopted the CEP, Kate and her husband had retired in their late fifties. He was an executive at a subsidiary of a multinational company, and she had a career in the financial industry that began as a part-time bank teller and ended as a branch manager.

Kate was quite certain about not investing in foreign companies. Besides supporting Canadian companies, she liked not having her own savings subjected to the vagaries of fluctuating currency rates and hostile policies of foreign governments.

A demonstration of the hazards that could arise comes from U.S. President Donald Trump’s “Big Beautiful Bill,” which was recently passed into law. It contained a clause that would levy higher U.S. taxes and withholding rates on foreign investors whose home country was judged to be discriminating against the United States. (For example, Canada’s import quotas on U.S. dairy products.) But fortunately for Canada, that clause was taken out just before it made its way through Congress.

The stocks in the CEP are mostly from large companies that pay sizable dividends. And the dividends tend to be raised regularly, which often is a sign of a well-run company.

The 10 companies:

Bank of Nova Scotia

Canadian National Railway Co.

Canadian Pacific Kansas City Ltd.

Enbridge Inc.

Emera Corp.

Canadian Utilities Ltd.

Fortis Inc.

Royal Bank of Canada

Toronto-Dominion Bank

TransCanada Corp.

The CEP also had a good track record. The cumulative total return over the 10 years to 2010 was 305 per cent, better than the 72-per-cent gain in the S&P/TSX Composite Index, according to the 2010 article. It also outperformed from 2000 to 2017, reported the 2018 article.

Kate always maxed out annual TFSA contributions, which totalled $102,000 by 2025. At first, they went into mutual funds, but after discovering the CEP, she switched out of them and funnelled the proceeds, along with continuing annual TFSA contributions, into building up the CEP.

By early 2020, Kate had a substantial CEP in place. Her TFSA is now worth $247,000 as of mid-June, with most of the growth coming after January, 2020. Kate's TFSA is not one of the million-dollar-plus TFSAs that the Trouncers series has often profiled, but after adjusting for the constraints of maintaining a relatively smooth ride and an undemanding workload, she sees her TFSA hitting a home run in terms of her own needs.

She is also playing a long game that in time should bring her portfolio above $500,000. There is more certainty getting to this threshold and staying there when aggressive risks are not taken in pursuit of fast or giant gains.

The screenshots supplied by Kate of her TFSA show a value of $106,500 at the start of January, 2020. Back-of-the-envelope calculations from that level to mid-2025 generate a compound annual growth rate (on a total return basis) that is ahead of the S&P/TSX 60, albeit by a more modest amount than in the past.

But five years is a rather short period for judging performance. Moreover, within a full business cycle over 10 years or so, there could be periods when CEP underperforms. And if the portfolio becomes more widely adopted, its outperformance could be eroded as the prices of the stocks are pushed to higher valuations and make it more expensive to own the CEP.

What an expert says

We asked Ryan Bushell (CFA, CIM) chief executive officer & portfolio manager at Newhaven Asset Management Inc. for his thoughts on Kate's TFSA:

Wow, this is a TFSA after my own heart. So many investors try to "max out" their TFSA with riskier selections in the hope of scoring a tax-free windfall if they are correct. The problem with this strategy is that there is no tax benefit if things don't go as planned and you risk forfeiting the single best investment vehicle the government gives us.

I often say to clients that your first dollar and your last dollar should be in your TFSA, as you want to have as many dollars growing free from taxes for as long as possible. Returning to the portfolio at hand, Kate has used all of her room to select Canadian dividend-paying companies with a long history of compounding steady annual returns. In my view this is the perfect investment strategy for a TFSA because the balance of risk and reward is such that you are extremely likely to compound, at worst, a high single-digit return for a long period of time.

Our research shows that high-quality Canadian dividend-paying companies have outperformed both the TSX and the S&P 500 total return indexes over the past 60 years. It is essential to ensure you get to use the tax benefit of a TFSA with a high degree of certainty while still compounding a return that exceeds "safer" options like bonds or GICs.

Canadian dividend-paying companies are an excellent vehicle to accomplish that. While this portfolio has not hit the $1-million level just yet, it is nearly certain that it will get there eventually, and when it does, it will not look back. In short, my sincere congratulations to Kate. I could not have done it better myself!

Larry MacDonald is a freelance business journalist and author. His latest book, The Shopify Story, was published in the fall of 2024.