Attention Young Investors: 2 Dividend-Growth Picks to Launch Your TFSA

Description

Market corrections give investors of all ages an opportunity to pick up quality stocks at discounted prices, but the pullbacks really help young investors who embrace a buy-and-hold strategy.

The arrival of the tax-free savings account (TFSA) has made it possible for young people to build a substantial retirement portfolio in a very efficient way. Just pick a basket of quality dividend-paying companies, and then reinvest the distributions in new shares.

Over time, the compounding effect can build a relatively small sum of initial funds into a mountain of money to finance the golden years.

The great advantage of the TFSA is that it allows investors to reinvest the full amount of the distributions and protects all the capital gains on the stocks.

Which stocks should new investors buy?

The recent volatility in the market is a good reminder to choose stocks that have dominant positions in industries with little competition and large barriers to entry. The companies should also have long histories of dividend growth.

Here are the reasons why **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Fortis Inc.** (TSX:FTS) are good picks to get started.

Canadian National Railway

Canadian National Railway is the only company in the industry that can offer its customers access to three coasts. That's a great competitive advantage, and one that is unlikely to change. Why? Because the odds are pretty much nil that anyone will build a new line along the same routes.

Railways are the backbone of the North American economy. As such, Canadian National Railway gets revenues from a wide variety of business segments, and that diversity provides stability in earnings when parts of the economy start to falter.

For example, the energy segment of Canadian National Railway's business is taking a hit this year, but forestry is doing well. This isn't a coincidence. As oil prices drop, the Canadian dollar follows suit, making Canadian lumber much cheaper for U.S. and foreign buyers.

Canadian National Railway increased its dividend by 25% in the first quarter, sending a strong message to investors that management is comfortable with the earnings outlook, even as Canada works its way through a rough patch.

Net income for the second quarter came in at $1.10 per share, up from $1.03 in the same period last year. Investors should see the growth continue to chug along at a slow and steady pace.

Fortis

Fortis operates electricity generation and natural gas distribution assets in Canada, the United States, and the Caribbean. Like the railways, power generation and pipeline businesses tend to operate with little competition in their respective areas.

The great thing about Fortis is the fact that it gets 93% of its revenues from regulated assets. This means investors can feel pretty secure about the reliability of the revenue and income stream.

Fortis pays a dividend that yields about 3.8%. The company has increased the payout every year for the past four decades. With that kind of growth, young investors can turn a small investment into a large nest egg by simply reinvesting the dividends every year.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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