Why Young Savers Should Put Stocks in Their TFSAs

Description

The TFSA is a great savings vehicle for all Canadians, but young investors can really take advantage of its benefits to build a substantial cash stash for retirement.

Stocks vs fixed income

Many people hold interest-paying GICs and Canada Savings Bonds in their TFSAs. That makes sense if you are older or absolutely cannot afford to take on any risk. Unfortunately, these investments pay very little interest and don't provide the opportunity for capital gains that investors can get from stocks.

The great thing about the TFSA is the ability savers have to harness the power of compounding by investing in dividend-paying companies and reinvesting the distributions in new shares.

When this is done inside the TFSA, the full amount of the dividend can be reinvested, and the capital gains on the stocks are not subject to any tax.

The strategy is useful for investors of all ages, but young savers have time on their side, and small initial investments can grow substantially over the course of 20 or 30 years.

Which stocks are best?

Investors should look for dividend-growth companies that have long track records of paying rising distributions supported by strong revenue and earnings growth.

Ideally, these companies hold leadership positions in their industries and enjoy competitive advantages that make it difficult for new entrants to spoil the party.

The Canadian market has a number of great companies to choose from. Let's take a look at **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) to see why they are solid picks to get you started.

Bank of Montreal

Bank of Montreal reported Q3 2015 profits of nearly $1.23 billion. That's no typo–the company really is that profitable. The bank isn't as big as some of its peers, but it commands a strong position in the Canadian market and continues to invest in opportunities that ensure it has the diversification needed to maintain its track record of growth.

The stock pays a quarterly dividend of $0.82 per share that yields about 4.3%.

A $10,000 investment in Bank of Montreal 20 years ago would be worth about $98,000 today with the dividends reinvested.

Rogers

Rogers operates in an industry with very few serious competitors. That’s a great situation to be in, and investors are reaping the benefits.

The company remains the country’s largest mobile operator and is working through a turnaround process to improve customer service. The media division is gaining steam, and investors who want to own part of the Blue Jays and the Maple Leafs can do so by holding this stock.

Rogers pays a quarterly dividend of $0.48 per share that yields 3.6%.

A $10,000 investment in Rogers 20 years ago would now be worth about $107,000 with the dividends reinvested.

CATEGORY

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TICKERS GLOBAL

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2. NYSE:RCI (Rogers Communications Inc.)
3. TSX:BMO (Bank Of Montreal)
4. TSX:RCI.B (Rogers Communications Inc.)

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