2 TFSA Picks for Your Rainy Day Portfolio

Description

People use the tax-free savings account (TFSA) for different reasons.

Some invest as part of their retirement plans. Others use the account to save for a trip, to build a down payment on a house, or to simply stash cash away for a rainy day.

Regardless of the reason, you want the funds to grow as much as possible without having to take on too much risk in the process. In the good old days, people could buy GICs and get enough interest to meet their savings objectives, but fixed-income instruments simply don't pay anymore.

That's why savers are turning to dividend-growth stocks.

The great thing about the TFSA is that investors get to keep all of their gains. This enables a small stock investment to start a tax-free compounding process that can turn a modest amount of savings into a substantial pile of money when the dividends are reinvested.

With that thought in mind, I think savers should consider **Telus Corporation** (TSX:T)(NYSE:TU) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) for their TFSA portfolio.

Telus

Telus is essentially an ATM machine for its investors. The company operates in an industry with few serious competitors, and the likelihood of the cozy little oligopoly being disrupted is minimal.

A few years ago Telus realized that a customer-first approach could actually be profitable. This was a relatively new concept to the Canadian telecom industry, but it has started to catch on now that Telus has proven that it pays to treat customers well.

The company has the lowest mobile churn rate in the industry and has increased its year-over-year blended average revenue per unit for 20 straight quarters.

Who would have imagined that happy customers spend more?

Telus has avoided the rush into media assets and has decided to focus its investments on the medical sector. Telus Health is the country's leading provider of secure online services that enable doctors, hospitals, and insurance companies to safely and efficiently exchange medical data.

The business still represents a small portion of the overall earnings mix, but the potential is significant and the field is growing at a rapid clip.

Telus just increased its quarterly dividend to $0.44 per share. The distribution yields about 4.3%.

Canadian National Railway

The rail business might be the best-protected game there is because the odds of someone building new rail networks anywhere in Canada or the U.S. are pretty much nil.

Canadian National Railway has an advantage over its peers in that it can offer its customers access to three coasts via its T-bone network that crosses Canada and runs straight through the heart of the United States.

The company is often cited as the most efficient railway in the industry and continues to deliver great earnings growth, while rewarding investors with rising dividends and share buybacks.

Canadian National Railway increased its distribution by 25% earlier this year. The current quarterly dividend of $0.3125 pays 1.63%.

Investors shouldn't be put off by the low yield because the company increases the payout regularly, and the stock has a fantastic track record of capital appreciation.

A $5,000 investment in Canadian National Railway 15 years ago would be worth about $59,000 today with the dividends reinvested.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:TU (TELUS)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:T (TELUS)

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