Young Investors: 2 Dividend-Growth Stocks to Build Serious TFSA Wealth

Description

The tax-free savings account (TFSA) is a great investment vehicle for all Canadians, but the product can really benefit millennials who are looking to build a large retirement portfolio.

How?

All income earned in a TFSA is protected from the taxman. This means the full value of dividends paid on stocks can be reinvested into new shares. Over time, the magic of compounding can turn a modest investment into a substantial nest egg.

The longer you have before you retire, the more powerful the TFSA becomes, and that's why millennials have an advantage over their parents or grandparents when it comes to leveraging the benefits of the TFSA.

What stocks should you buy?

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The secret lies in finding top-quality names that have long track records of paying rising dividends that are supported by earnings growth. These companies also tend to have strong histories of capital appreciation and operate in sectors with wide moats.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see why they might be good picks for a TFSA.

Royal Bank

Royal Bank is a profit machine. The company earned nearly $10 billion in fiscal 2015 and continues to rake it in despite facing some economic headwinds in the Canadian market.

The bank's success can be attributed to its balanced revenue stream, with strong performances coming from its retail, wealth management, and capital markets divisions. Royal Bank is also expanding its operations in the United States.

The market is somewhat concerned about oil and housing risks in Canada, but Royal Bank's oil and gas exposure is very small compared to its overall loan book, and the mortgage portfolio is capable of riding out a significant downturn in the housing market.

Royal Bank recently increased its dividend, and the current quarterly payout of $0.79 per share offers a nice yield of 4.3%.

A single $20,000 investment in Royal Bank 20 years ago would now be worth $330,000 with the dividends reinvested.

Enbridge

Enbridge is a great pick because it operates assets that produce consistent and reliable cash flow.

The stock has been under pressure in the past year as investors fret about the downturn in the oil sector, but Enbridge is not directly impacted by low oil prices because it isn't a producer.

The company simply transports product from the point of production to the end user and takes a fee for providing the service.

Enbridge has $18 billion in ongoing projects that will be completed and in service by 2019. As new assets go online, revenue and cash flow increases, and that generally means higher dividends for shareholders. The company has a long history of raising its payout, and management plans to boost the distribution by about 12% per year over the next three years.

Enbridge has made some of its investors quite wealthy. A $20,000 investment in the company 20 years ago would now be worth $436,000 with the dividends reinvested.

CATEGORY

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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:ENB (Enbridge Inc.)
4. TSX:RY (Royal Bank of Canada)

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Date
2025/09/22
Date Created
2016/03/16
Author
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