Young Savers: Here's How the TFSA Can Help You Retire Rich

Description

The tax–free savings account offers investors of all ages a way to protect investment income from the taxman, but young savers really have an advantage.

In fact, by harnessing the power of compounding, millennials can use the TFSA to build a mountain of money for retirement.

How does it work?

Young investors can purchase dividend-growth stocks in their TFSAs and then use the distributions to buy more shares. Over the course of 20 or 30 years, a relatively small amount of initial capital can grow to become a substantial sum.

Using dividend reinvestment to build wealth is not a new idea, but the TFSA makes it easier because investors don't have to pay tax on the dividends and are able to keep all of the capital gains.

Which stocks are ideal?

The best companies have long histories of dividend growth that's supported by rising revenues and higher earnings. Investors should also look for market leaders in industries with huge barriers to entry.

Here are the reasons why **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) fit the bill.

CN

CN is the only railway that offers customers access to three coasts, and the odds of another competitor building lines along CN's routes are pretty much nil.

The company is leveraging the advantage by creating intermodal hubs along the network to help it steal business from trucking companies. Instead of using a transport truck to haul goods from the port to the end destination, intermodal customers can use CN for the largest part of the trip and have a local truck complete the delivery.

CN is regularly cited as the most efficient railway in the industry, and the U.S.-based operations provide a nice revenue hedge against tough times in Canada.

CN recently increased its dividend by 20%, and the distribution has increased by an average 17% per year for the past two decades.

A $10,000 investment in CN in 1996 would now be worth $240,000 with the dividends reinvested.

Enbridge

Enbridge is a pipeline giant with an infrastructure network that runs across most of Canada and stretches down through the U.S. to the Gulf Coast. The company also has solar and wind projects as well as local utility assets. The great thing about Enbridge is that it has the financial firepower to build big infrastructure projects that operate like tollbooths for decades.

The rout in the energy sector has put some oil and gas development on hold, but Enbridge still has $18 billion in new projects set for completion over the next three years. That means revenue and cash flow will increase as the new assets go into service, and Enbridge plans to continue raising the dividend by 8-10% per year over the near term.

Like CN, Enbridge has been a fantastic generator of wealth for long-term investors.

A $10,000 investment in Enbridge 20 years ago would now be worth $212,000 with the dividends reinvested.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:CNR (Canadian National Railway Company)
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