2 Top Dividend-Growth Kings for Your TFSA

Description

The TFSA is a useful vehicle for helping investors build a retirement portfolio, and one way to maximize the potential of the account is to hold dividend-growth stocks.

Why?

Investors can take the dividends and reinvest them into new shares, setting off a process that harnesses the power of compounding. Over time, savers can turn a relatively small investment into a substantial nest egg.

People have used this strategy for decades, but the TFSA allows the full amount of the dividend to be invested, rather than the after-tax amount, and investors get to keep all of the gains when they decided to cash out.

This means the portfolio grows faster than it would have in the past and the size of the portfolio doesn't have to be as big when the investor retires.

Which stocks are best?

The ideal companies have long histories of dividend growth and hold leadership positions in their industries.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Fortis Inc.** (TSX:FTS) to see why they are solid picks.

CN

CN is the only North American railway with lines running to three coasts.

The company operates in a broad range of business segments, and weak periods in one group tend to be offset by strength in others. For example, the downturn in oil prices has hit the energy segment, but the resulting plunge in the Canadian dollar has been a benefit to the forestry sector. The low loonie also means U.S.-based earnings are much higher when converted to the Canadian currency.

CN reported Q4 net income of $941 million, up 11% compared with the same period last year despite the fact that overall revenue actually fell 1% and total carloads slipped 8%. The currency effect was partly responsible for the strong numbers, but CN is also very efficient and boasts one of the lowest operating ratios in the industry.

Investors like CN because it generates significant amounts of free cash flow and is very good at returning money to shareholders through dividend hikes and share buybacks. Management recently raised the distribution by 20%, and investors have enjoyed an average annual increase to the dividend of 17% over the past 20 years.

A $10,000 investment in CN just 15 years ago would now be worth $120,000 with the dividends reinvested.

Fortis

Fortis operates natural gas distribution and electricity generation assets in Canada, the United States, and the Caribbean.

The company has grown its U.S. operations significantly in recent years, and that trend is set to continue. In fact, Fortis is spending US$11.3 billion to acquire ITC Holdings Corp., the largest independent pure-play electricity transmission company in the United States.

Fortis is a great way to play a strong U.S. dollar, and most of the company’s revenue comes from regulated assets. This means cash flow should be predictable and reliable, which is great for dividend stability.

Fortis has increased its dividend every year for more than four decades, and the company expects to boost the payout by 6% each year through 2020.

A $10,000 investment in Fortis 20 years ago would now be worth $206,000 with the dividends reinvested.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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