Here's How to Use Your TFSA to Build Serious Retirement Wealth

Description

The need to save for the golden years has never been more important, especially for young Canadians.

Why?

In the past, full-time employment was easy to find right out of college or university, and many companies offered defined benefit pension plans. As a result, most people didn't have to worry about squirreling away extra money because the company pension, combined with CPP and OAS payments, would generally be enough to maintain a comfortable standard of retirement living.

The world has changed.

Today, millennials have to fight hard just to get contract work, let alone full-time employment, and pension benefits are becoming rare. As a result, people are on their own to fund their retirement.

Where can you get decent returns?

Interest rates are too low to provide any meaningful returns from GICs or savings account, and buying a house with the hopes of using it to build wealth is becoming a scary bet.

Fortunately, young investors have one powerful tool that wasn't available to their parents. It's the tax-free savings account (TFSA).

The TFSA protects income and capital gains from the taxman. As a result, savers can purchase top dividend-growth stock and reinvest the full value of the distributions in new shares. This launches a compounding process that can turn a small initial investment into a large nest egg over time. When the moment comes to use the money, it is all tax free.

Which stocks should you buy?

The best companies have long histories of dividend growth that's supported by rising revenue. Ideally, they also hold dominant positions in industries with high barriers to entry.

Here's why **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) are both good examples.

Royal Bank

Royal Bank is a profit machine. The company earned just under $10 billion last year in an economic environment that is considered to be "challenging" for the banks.

The company's success is broadly due to its balanced revenue stream. Royal Bank relies heavily on its Canadian retail business, but it also has strong operations in insurance, wealth management, and capital markets.

The company is now expanding its presence south of the border with the recent US$5 billion acquisition of California-based City National. The purchase gives Royal Bank a great platform to target growth in the private and commercial banking segments of the American market.

Competition from mobile payment operators is keeping the banking industry on its toes, but Royal Bank has the financial firepower to fight the battle and remain relevant as the market evolves.

The bank has made many of its long-term investors quite wealthy. A $10,000 investment in the stock 20 years ago would now be worth $216,000 with the dividends reinvested.

Enbridge

Enbridge provides the infrastructure needed to move oil, natural gas, and natural gas liquids from the point of production to the end user. In essence, the business operates like a toll road.

The stock has come under pressure in the past year as investors fret about the challenges facing the energy sector. The view is a bit shortsighted, and this has provided a great opportunity to pick up the stock at a reasonable price.

Enbridge has enough commercially secured projects on the go to wait out the slowdown in the energy cycle. In fact, the company expects to put $18 billion in new assets into service over the next three years. This should boost revenue and cash flow enough to hike the dividend by 8-10% per year.

Enbridge has also been a great long-term holding. A $10,000 investment in the company 20 years ago would now be worth $347,000 with the dividends reinvested.

CATEGORY

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