TFSA Investors: 2 Dividend-Growth Stocks to Help You Retire Wealthy

Description

Young investors have an opportunity to build wealth that was never available to their parents. It's called the TFSA.

The tax-free savings account (TFSA) was created in 2009 to help Canadian investors keep investment gains out of the hands of the government. Anyone who was at least 18 years old at that point can now contribute up to $46,500.

Many people hold GICs in the account, which makes perfect sense if you need access to the funds in the near term, but the real power of the TFSA lies in buying dividend-growth stocks.

Why?

Using the dividends to buy new shares sets off a compounding process that can turn a modest initial investment into a serious pile of cash. You just need the discipline to stick to the program and enough investing years to let the math do its work.

The strategy has been employed for decades, but the TFSA enables young people to supercharge the gains because they don't have to pay tax on the dividends and they get to keep all the capital gains when they decide to sell the shares.

Which stocks should you buy?

The best companies have long track records of dividend growth that's supported by rising revenue. You also want names that are leaders in industries with huge barriers to entry.

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

CN

CN is widely viewed as the most efficient railway company in North America, and it is the only one that offers customers access to three coasts. That’s a great combination, and a big reason why CN is such an attractive pick.

The company has to compete with the trucking industry for business, but CN is investing heavily in intermodal hubs along its network. Shippers now have the option to use CN for the largest part of a trip and then contract a local trucking firm to make the delivery to the final destination.

Difficulties in the oil patch are impacting CN’s energy segment, but the resulting drop in the Canadian dollar is helping the company’s automotive and forestry customers as well as providing a nice boost to income when profits generated in the U.S. are converted to Canadian dollars.

CN throws off a ton of free cash flow and is generous when handing it out to shareholders. Management recently hiked the dividend by 20% and the distribution has grown by 17% per year over the past two decades.

Returns?

A $10,000 investment in CN just 15 years ago would now be worth $108,000 today with the dividends reinvested.

Enbridge

Enbridge is a pipeline giant. The company has infrastructure throughout Canada and the United States carrying oil, natural gas, and natural gas liquids from producers to end users.

The business is capital intensive, but a new line only gets built once Enbridge has long-term contracts in place to justify the construction. After a pipeline is completed, it essentially acts as a tollbooth for decades, and there is little risk of a competing line being built along the same route.

The oil rout has some pundits concerned that demand for new infrastructure will slow in the coming years. That could be the case in the medium term, but Enbridge has $18 billion in projects on the go that will be completed over the next three years.

As they go into service, the company plans to hike the dividend by 8-10% per year. If the oil rout lingers beyond that time frame, Enbridge has enough financial firepower to grow through acquisitions.

Enbridge has also made its long-term investors quite happy. A $10,000 investment in the stock 15 years ago would be worth $114,000 today with the dividends reinvested.

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1. Dividend Stocks
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1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:ENB (Enbridge Inc.)
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