# How Young Investors Can Save a Bundle in Their TFSA

## Description

The TFSA is useful for investors of all ages, but millennials can get the most out of the product if they use it wisely.

How does it work?

The account allows investors to protect earnings from the taxman, so young savers can buy dividend-growth stocks and reinvest the full value of the distributions in new shares. Over the course of two or three decades, the power of compounding can turn a relatively small initial investment into a significant nest egg for retirement. The key ingredient is time, and that's where millennials have a great advantage.

The strategy has been used for years, but the structure of the TFSA means Canadians can now build their savings faster than was possible in the past, and they don't require the portfolio to be as large when they retire because the withdrawals won't be taxed.



**Which stock should you buy?**

The best companies have long track records of dividend growth supported by rising revenues. Ideally, they also enjoy wide competitive moats.

Let's take a look at why **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) are good contenders.

**TD**

TD reported earnings of $2.2 billion for fiscal Q1 2016. That's not too shabby for three months of work, especially in a "challenging" economic environment.

The company's success lies in its powerful retail operations. TD consistently wins customer service awards here in Canada, and the company's large U.S. presence provides a nice hedge against weakness in the Canadian economy.

Canadian banks are facing new competition from mobile payment operators, and that threat will continue to grow. TD knows this and is investing heavily to ensure it stays ahead of the curve by providing products that enable customers to interact with the bank via their computers or mobile devices. The FinTech revolution is certainly disruptive, but TD and its peers still enjoy limited competition in the Canadian market and have the financial firepower to protect their little kingdom.

TD recently raised the dividend by 8%, and the stock currently offers an attractive 3.9% yield.

A $10,000 investment in TD 15 years ago would be worth $50,000 today with the dividends reinvested.

**CN**

CN is one of those stocks you can simply buy and forget about for decades. The company is widely regarded as the most efficient railway in North America and is the only company in the industry that can offer connections to three coasts.

That's a powerful combination.

The rail industry is facing some economic headwinds right now, but CN continues to deliver solid numbers.

Net income for Q1 2016 came in at $792 million, up 13% from the same period last year. CN generated free cash flow of $584 million in the first quarter, up from $521 million in Q1 2015.

The plunge in oil prices has hit the Canadian dollar pretty hard. As a result, the country's automotive and forestry industries are getting a boost, and that is showing up in stronger demand for CN's services in these sectors. The weak loonie also means U.S.-based earnings convert to significantly more Canadian dollars than they did when the currency was at par.

CN raised its dividend by 20% earlier this year. The current payout offers a yield of 2%.

A $10,000 investment CN just 15 years ago would be worth $106,000 today with the dividends reinvested.



**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**TICKERS GLOBAL**

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:TD (The Toronto-Dominion Bank)

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