Young Investors: 2 Dividend-Growth Stocks to Start Your TFSA

Description

Millennials have an investing advantage that was never available to their parents. It's called the tax-free savings account (TFSA).

The TFSA allows Canadians to keep the full value of investment earnings and capital gains. For young savers looking to put some cash away for retirement, that provides a great opportunity, and a popular TFSA strategy is to own dividend-growth stocks and reinvest the distributions in new shares.

Why?

With ample time and discipline, an investor can harness the power of compounding to turn a relatively small initial investment into a significant nest egg. The strategy has been employed for decades, but Canadians always had to pay tax on their dividend income and capital gains before the TFSA was introduced.

Which stocks should you buy?

The best companies have long track records of dividend growth that's supported by rising revenue and earnings.

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

TD

TD reported fiscal Q2 2016 net income of $2.05 billion, up from $1.86 billion in the same period last year. Those are pretty good numbers for just three months of work, especially at a time when the banks are supposed to be facing difficult economic conditions.

TD's personal and commercial banking operations are the bread and butter of the organization. Most people are familiar with the Canadian business, but TD actually has more branches south of the border, and that provides a great hedge against tough times here in Canada.

Earnings in the U.S. division jumped 21% in the second quarter compared with Q2 2015. The strong U.S. dollar was responsible for most of the gains, and the currency benefit continues to be a factor. One greenback currently converts to CAD$1.28.

TD raised the dividend by 7% earlier this year. The current quarterly distribution of $0.55 per share yields 3.8%.

A $10,000 investment in TD just 15 years ago would now be worth $49,000 with the dividends reinvested.

CN

CN is battling some economic headwinds these days, but the company continues to generate impressive results.

Net income for Q1 2016 came in at $792 million, up 13% compared with the same period last year. Free cash flow jumped from $521 million in Q1 2015 to $584 million.

The commodity rout has hit demand for CN’s services in the fertilizer and energy sectors, but other parts of the business are picking up the slack. For example, CN’s forestry and automotive segments are doing very well due to the decline in the loonie.

Like TD, CN generates a significant part of its earnings in the U.S., and the strong American dollar is providing an additional boost to earnings.

Management raised the dividend by 20% this year, and investors have enjoyed an average annual dividend increase of 17% for the past two decades.

A $10,000 investment in CN 15 years ago would be worth $104,000 today with the dividends reinvested.

CATEGORY

1. Bank Stocks
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TICKERS GLOBAL

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