Millennials: 1 Top TFSA Pick to Help You Build Some Serious Retirement Wealth

Description

Young Canadians have an investing advantage that was never available to their parents or grandparents when they were younger. It's called the Tax Free Savings Account (TFSA).

The TFSA allows Canadians to earn income and generate capital gains without worrying about handing the profits over to the taxman. This is beneficial in two key ways for young people who want to invest for the golden years.

First, the full value of dividends can be reinvested in new shares held in the TFSA. This sets off a powerful compounding process that can turn a modest initial investment into a significant nest egg over time.

In a moment we'll see how effective it can be.

The second benefit is the fact that all capital gains are tax free. That means the size of the savings portfolio doesn't have to be as large as it would in a taxable account because investors don't have to worry about Ottawa taking a big chunk when it comes time to cash out.

Which stocks should you buy?

The best picks are companies with long track records of dividend growth that's supported by strong free cash flow. Ideally, these firms also hold dominant positions in industries with huge barriers to entry.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see why it should be a good place to start.

Earnings stability

The rail industry is working its way through a difficult part of the economic cycle, but CN continues to post solid results.

The company just reported Q2 2016 net income of $858 million, which is down slightly from $886 million in Q2 last year. At $1.10 per share, the quarter was pretty much flat on a year-over-year basis.

CN is literally the backbone of the Canadian and U.S. economies and transports everything from coal to cars. The commodity rout has hit the energy and coal segments of CN's business, but automotive is holding up well and forestry is helping pick up some of the slack.

Free cash flow

CN kicks off a ton of free cash flow, and that's important for dividend-growth investors.

Despite the "challenging" environment, CN generated free cash flow of $1.17 billion in the first six months of 2016 compared to $1.05 billion in the same period last year.

That's a ton of extra cash, and the company is generous about giving it back to shareholders. Management raised the dividend by 20% earlier this year, and shareholders have enjoyed and average annual distribution gain of 17% over the past two decades.

Wide moat

CN is the only railway with access to three coasts. That gives it a formidable advantage, and the situation is unlikely to change. In fact, the odds are pretty much nil that competing rail lines would ever be built along the same routes.

Returns

Long-term holders of CN's stock have done very well. A $10,000 investment in CN just 15 years ago would now be worth $112,000 with the dividends reinvested.

Should you buy?

Past performance is no guarantee of future gains, but CN is about as good as it gets when looking for a reliable dividend-growth stock to buy and sit on for decades.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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