Millennials: 2 Top TFSA Picks to Help You Save Serious Cash for Retirement

Description

The Tax Free Savings Account (TFSA) is a useful for tool to help young Canadians build a comfortable nest egg for the golden years.

Why?

The beauty of the TFSA is that it protects income and capital gains from the taxman. This means investors can buy dividend-paying stocks and reinvest the full value of the distributions in new shares without having to pay the government any tax on the earnings.

Over time the power of compounding can change a relatively modest initial investment into a significant retirement portfolio, and when the time comes to cash out, all of the gains go straight into your pocket!

Which stocks should you buy?

The best stocks tend to have long track records of dividend growth that's supported by rising revenue. Ideally, these companies also hold dominant positions in their respective industries.

Let's take a look at why **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) might be good picks to start.

Royal Bank

Canada's largest bank is a profit machine. The company earned just under $10 billion in 2015 and is on track to hit or exceed the milestone this year.

The strong results can be attributed to Royal Bank's diversified business model with revenue coming from retail, wealth management, capital markets, and insurance operations.

This is important because the performance in any one group can vary from quarter to quarter, so a rough run in one segment is often offset by strong results in another.

Royal Bank is now looking to the U.S. to drive growth. The company spent US$5 billion last year to buy

California-based City National in an acquisition that gives Royal Bank a strong foothold in the U.S. private and commercial banking sector. The division is already contributing to earnings, and investors should see the group expand in the coming years.

Royal Bank pays a quarterly dividend of $0.81 per share. That’s good for a yield of 4.1%.

A $10,000 investment in this stock 15 years ago would be worth $55,000 today with the dividends reinvested.

Enbridge

Enbridge is a massive company with liquids infrastructure running across Canada and down through the United States to the Gulf Coast. The pipeline business might seem like a boring one, but investing for retirement is about returns, not entertainment.

Resistance to the Northern Gateway line, charges for spills, and the lingering oil rout have cast a cloud over the stock in the past year, but the long-term outlook for this company remains attractive.

Enbridge has $26 billion in capital projects under development. As the new assets go into service, cash flow should increase enough to support dividend growth of at least 8% per year.

Some analysts are concerned a protracted slump in oil prices will hit demand for new pipeline infrastructure. That is a valid point, but Enbridge is large enough that it can grow through acquisitions if it faces a shortage of organic opportunities.

Enbridge just raised its quarterly dividend to $0.53 per share. At the current price the distribution yields 3.9%.

Returns?

Long-term holders of the stock have done very well. A $10,000 investment in Enbridge 15 years ago would be worth $103,000 today with the dividends reinvested.

Is one a better bet?

Both stocks are solid TFSA picks for buy-and-hold investors. Enbridge’s dividend-growth prospects are probably better in the medium term, so I would give the pipeline operator the nod today.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date
2025/09/22
Date Created
2016/08/05
Author
aswalker