Young Investors: Consider This Top Dividend Stock to Start Your TFSA Portfolio

Description

The Tax Free Savings Account (TFSA) is a useful tool for all Canadians, but millennials can really tap the benefits to save some serious cash.

Why?

The TFSA allows investors to earn income and generate capital gains tax free. This means millennials looking for a way to set aside cash for retirement can buy dividend stocks and reinvest the full value of the distributions in new shares without having to set some aside for the taxman.

When the time comes to sell the stocks and use the money, all of the capital gains go straight into your pocket!

This is a huge advantage over the boomers, who were forced to hold some of their investments in taxable accounts. Not having to fork over a large chunk of the gains to the government means the size of the portfolio doesn't have to be large to meet your retirement needs.

Which stocks should you buy?

The best companies to own tend to be market leaders with strong track records of dividend growth.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see why it might be an interesting pick.

Wide moat

CN is the only railway in the U.S. and Canada that can offer its customers access to three coasts. This is a powerful competitive advantage that is unlikely to change.

Think about it. What are the odds that new rail tracks will be built by a competitor along the same routes? They're pretty much nil.

Efficient operations

CN still has to compete with truckers and other railways on some destinations, so it is constantly looking for ways to make the company more efficient.

Management appears to be doing a great job.

The company reported a record-low operating ratio of 54.5% for Q2 2016. A low number is desired because it indicates the operating costs as a percentage of revenue.

Steady results

Rail operators are battling through a slow period in the economic cycle, but CN continues to post solid numbers.

The company delivered Q2 2016 earnings of $1.10 per share, which was in line with the previous year. That doesn't sound impressive, but it's a strong result given the fact that revenue slipped 9%.

Lower operating costs are part of the story, but CN also generates significant income south of border. The diversification in the revenue stream is important because the strong U.S. dollar is helping offset the short-term dip in overall revenue numbers.

Dividend growth

CN raised the dividend 20% earlier this year, so management isn't overly concerned about cash flow. The company has increased the payout by an average 17% per year over the past two decades.

Returns

Long-term investors have done very well with this stock. In fact, a $10,000 investment in CN just 15 years ago would be worth $129,000 today with the dividends reinvested.

Should you buy?

If you want a top stock to buy and hold for decades, CN is an attractive first pick for any TFSA account.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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