Dividend Investors: 2 Top Stocks to Start a TFSA Retirement Portfolio

Description

The Tax Free Savings Account (TFSA) is a great vehicle to help Canadians set cash aside for their retirement.

Why?

All income and capital gains earned in the account are tax free. This provides investors with an opportunity to buy dividend-paying stocks and reinvest the full value of the distributions in new shares.

The strategy takes advantage of the power of compounding, which can turn a relatively modest initial investment into a large nest egg if the shares are held for several years. Down the road, when it comes time to cash out, any capital gains go straight into your pocket.

Which stocks should you buy?

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

Let's take a look at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see why they might be good picks.

Enbridge

Enbridge is an energy infrastructure giant. The company's pipeline network criss-crosses Canada and runs right through the heart of the United States.

The oil rout has some pundits worried about demand for new pipelines. This is certainly a concern in the near term, but Enbridge has a large enough backlog of commercially secured projects to stay busy through the downturn.

The company is also targeting growth through acquisitions, including the recently-announced plan to buy **Spectra Energy** for $37 billion.

When Enbridge's existing project portfolio is merged with Spectra's, the combined company will boast

$74 billion in development projects with $26 billion set for completion in the next few years.

As a result, revenue and cash flow should continue to grow at a healthy clip, and Enbridge expects to boost its dividend by at least 10% annually through 2024. The current payout offers a yield of 3.7%.

Long-term shareholders have done well with this stock. A $10,000 investment in Enbridge 15 years ago would be worth $104,000 today with the dividends reinvested.

CN

CN is one of those stocks you can simply buy and forget about for decades.

The company is the only North American railway that can offer customers access to three coasts, giving the business a powerful competitive advantage that is unlikely to change.

CN still has to compete with truckers and with other rail lines on some common routes, so management works hard to reduce costs. The results are an industry-leading operating ratio, and CN is widely viewed as the best-run company in the sector.

The rail industry is facing a slow point in the economic cycle, and CN's Q2 revenue actually dropped 9% compared to 2015. However, the low operating ratio combined with strong revenue out of the U.S. has helped generate steady earnings and deliver free cash flow growth over the past 12 months.

CN is one of Canada's top dividend-growth stocks. The company raised the distribution 20% earlier this year an investors have enjoyed an annual average increase of about 17% over the past two decades.

What about returns?

A $10,000 investment in CN just 15 years ago would be worth $126,000 today with the dividends reinvested.

Is one a better bet?

Both stocks are attractive TFSA picks and deserve to be in any portfolio. At this point, I would consider it a coin toss between the two companies.

CATEGORY

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TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:ENB (Enbridge Inc.)

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Date
2025/08/26
Date Created
2016/09/27
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