How Canadian Millennials Can Use the TFSA to Retire Rich

Description

Young Canadians are facing challenges that weren't around when their parents finished university.

What's going on?

Full-time jobs are hard to find, and the ones that are available rarely offer the same retirement benefits new hires received 20 or 30 years ago. In addition, those who can afford to buy a home today shouldn't expect their properties to generate retirement wealth.

With no pension plan to rely on and an overvalued housing market to contend with, young people can be forgiven for being a touch pessimistic about their retirement prospects.

Fortunately, all is not doom and gloom.

In fact, Canadian millennials have access to one important wealth-generating vehicle that was never available to their parents or grandparents. It's called the Tax-Free Savings Account (TFSA).

How does it work?

The TFSA allows Canadians to buy dividend stocks and reinvest the full value of the distributions without having to set aside money for the taxman.

This sets off a powerful compounding process that can turn a modest initial investment into a substantial retirement fund over the course of a few decades. When the time comes to spend the cash, all of the capital gains are also tax free. That's right, every penny goes right into your pocket!

This is important because it means the final nest egg doesn't have to be as big as it would in a taxable account.

Which companies should you buy?

The best names tend to be leaders in industries with large barriers to entry. They also have long track records dividend growth.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see why it has been a solid pick for patient investors who want to generate retirement wealth.

A dominant and profitable business

CN is the only railway company in North America that can offer service to three coasts, and that situation is unlikely to change.

Why?

Rail mergers tend to run into regulatory roadblocks, and it’s pretty much impossible for new lines to be built along the same routes.

The company still competes with trucks and other railways in certain regions, but CN is one of the most efficient operators in the business and continues to find ways to reduce costs.

In fact, its Q3 2016 operating ratio, which measures expenses as a percentage of revenue, hit a record low.

Economic headwinds are putting some pressure on the industry right now, but CN continues to generate significant profits and is very generous when it comes to sharing the spoils with investors.

How generous?

The company raised its dividend by 20% earlier this year and has delivered a compound annual dividend-growth rate of about 17% over the past two decades.

That’s about as good as you are going to get in the Canadian market.

Returns?

A single $15,000 investment in CN just 20 years ago would be worth $510,000 today with the dividends reinvested.

There is no guarantee that CN will repeat its performance over the next 20 years, but company is a great example of how young Canadian investors with two or three decades of investing time ahead of them can use their TFSAs to help set aside some serious cash for retirement.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

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1. Editor's Choice

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