Young Investors: How Dividend-Growth Stocks Can Help You Retire in Comfort

Description

Millennials are looking at their parents and grandparents, and wondering if they will be able to enjoy the same comfortable retirement.

They have good reason to be concerned.

In the good, old days, companies offered generous defined-benefit pension plans, and people could expect to have long careers at the same firm. Today, young people are lucky to get a full-time gig, let alone any retirement benefits, and will probably work for several different businesses or industries over the course of their careers.

Aside from the pension, many boomers have also built great wealth in their homes, which can be sold to finance retirement living. Their kids are faced with house prices that are getting out of reach, and if a young couple does manage to scrape together the savings needed to make a down payment, there is a good chance the house won't appreciate much over the next 20 years.

So, how can young Canadians save for retirement?

One option is to buy dividend-growth stocks inside a TFSA or RRSP and reinvest the distributions in new shares.

This sets off a powerful compounding process that can turn a modest initial sum into a significant nest egg over time.

Which stocks should you buy?

The best companies are leaders in industries with strong barriers to entry. They also have solid track records of dividend growth.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) as a good example to see why it has proven to be a solid pick.

Wide moat

CN is the only rail company in North America that can offer its customers access to three coasts. That’s a powerful advantage that is unlikely to change.

Why?

Railway mergers tend to run up against regulatory roadblocks, and the odds are very slim that new tracks will ever be built along the same routes.

Efficient operations

CN still has to compete with trucks and other railways on some routes, so management works hard to ensure the company is run efficiently. In fact, CN is widely viewed as the best-managed business in the sector and regularly posts the lowest operating ratio in the industry.

Dividend growth

CN is very profitable and does a good job of returning the spoils to investors through share buybacks and dividend increases. The company’s compound annual dividend-growth rate over the past two decades is about 17%, which makes it one of the top dividend-growth stocks in Canada.

Returns

A single $10,000 investment in CN just 20 years ago would now be worth $365,000 with the dividends reinvested.

There is no guarantee the next two decades will produce the same results at CN, but the company is a great example of how young savers can still sack away a bundle for the golden years.

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