Young Investors: 2 Attractive Dividend-Growth Stocks for Your TFSA Portfolio

Description

Canadian millennials have an investing opportunity that was never available to their parents or grandparents at the same age.

It’s called the Tax-Free Savings Account (TFSA).

Young investors who were at least 18 years old in 2009 now have as much as $52,000 in contribution room available in their TFSAs.

How should you use it?

Many people hold GICs or cash in the vehicle, but the real power lies in buying dividend-growth stocks and reinvesting the distributions in new shares.

Why?

This sets off a powerful compounding process that can turn a modest initial investment into a serious cash pile over time.

The strategy has always been popular, but today’s millennials are the first generation that can grow the investments for decades and then cash out the gains completely tax-free.

That’s a huge advantage over their parents or grandparents, who have probably used the technique inside an RRSP, but have to pay tax on the funds when withdrawn.

Which stocks should you buy?

The best companies are industry leaders with strong track records of dividend growth.

Let’s take a look at **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see why they might be interesting picks.

TransCanada

TransCanada is an energy infrastructure giant with gas, oil, and power assets.

The company acquired Columbia Pipeline Group in a $13 billion deal last year that sets TransCanada up for solid distribution growth.

The business now has $23 billion in near-term commercially secured developments that should be completed by the end of 2020. As these assets go into service, TransCanada expects to see cash flow grow enough to support annual dividend hikes of at least 8%.

Management has raised the dividend for 17 straight years. The current distribution already provides a yield of 4%, so investors who buy today are looking at some solid returns in the medium term.

TransCanada also has a portfolio of mega-projects it hopes to complete, including Keystone XL and Energy East. If either of these pipelines gets the green light, TransCanada's stock should catch a nice tailwind.

A $10,000 investment in TransCanada just 15 years ago would be worth about $50,000 today with the dividends reinvested.

CN

CN is one of those stock investors can buy and forget about for decades.

The company is the only railway in North America that can offer its customers access to three coasts; it literally acts as the backbone of the U.S. and Canadian economies.

CN is widely viewed as being the best-run business in the sector and regularly reports an industry-leading operating ratio.

The company's dividend yield is only 1.7%, but the stock has a compound average dividend-growth rate of more than 16% over the past decade.

What about returns?

Long-term investors have done well with this stock. A $10,000 investment in CN just 15 years ago would be worth about $97,000 today with the dividends reinvested.

The bottom line

Using the power of compounding inside a TFSA can generate substantial savings for retirement. Investors just need to have the patience to ride out market dips and the discipline to leave the investment alone to do its work over the next 20-30 years.

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