Millennials: Smart TFSA Picks Can Help You Save Some Serious Cash for Retirement

Description

Young Canadians are faced with a challenging environment when it comes to saving for their golden years.

What's the issue?

In the past, most people who made it through a college or university degree were pretty much guaranteed to get decent jobs, and those positions usually came with generous pension plans.

Today, young people are fortunate to score a paid contract position once they finish school, let alone a full-time gig at a company.

And the pension?

Unless you go to work for the government, the odds of getting a defined-benefit pension plan are now pretty slim.

Heck, any pension benefit at all is a bonus these days.

On top of this, Gen X and the Boomers had an opportunity to buy a house when property was still affordable. Even if they don't have a generous pension, many people in their late 40s, 50s, and 60s are sitting on significant home wealth they can tap to help fund their retirement.

Their kids, however, are faced with a housing situation in several markets where there is a good chance any property they manage to buy today might not appreciate much in value in the next couple of decades.

The big millennial advantage

Millennials do have one huge advantage over their parents and grandparents. It’s called the Tax-Free Savings Account (TFSA).

Any person who was at least 18 years old in 2009 now has as much as $52,000 in contribution room available in their TFSA.

Many people hold cash or GICs inside their TFSAs, but the real power of the vehicle lies in the ability to invest in dividend-growth stocks and use the distributions to purchase additional shares.

Inside the TFSA, the dividends and capital gains are all tax-free, so investors can tap the power of compounding for 20-30 years and find themselves sitting on a significant cash stash that is 100% theirs to keep when it’s time to retire.

Which stocks are best?

The top companies have strong track records of dividend growth supported by rising earnings. On top of that, they tend to be market leaders in industries with strong barriers to entry.

One example is **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI).

CN is literally the backbone of the U.S. and Canadian economies with a rail network that touches three coasts.

The company regularly posts the industry’s best operating ratio and is very generous when it comes to sharing the profits with investors. In fact, the compound annual dividend-growth rate over the past decade is better than 16%, and CN also spends a significant amount of money on share buybacks.

What about returns?

A single $10,000 investment in CN just 20 years ago would be worth about $390,000 today with the dividends reinvested.

The bottom line

CN is just one company of many that have provided patient investors with fantastic returns, and while past performance is not guaranteed to be repeated in any one company, the strategy of owning top dividend-growth stocks and reinvesting the dividends has been a proven winner over time.

The trick in an uncertain market, like we have today, is to find the stocks that still offer strong long-term growth potential.

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