Young Investors: 2 Top Canadian Stocks for Your TFSA

Description

Millennials are searching for creative ways to set aside cash for a comfortable retirement.

One option is to buy dividend-growth stocks inside a Tax-Free Savings Account (TFSA) and reinvest the distributions in new shares.

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

The great thing about the TFSA is that the full value of the dividends is available to reinvest, and all the capital gains are protected from the tax man when the time comes to cash out the portfolio.

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

CN

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

The strategic advantage of the company's reach should not be underestimated, as it provides a significant moat. The odds of new rail lines being built along the same routes are pretty slim, and merger attempts in the rail sector tend to run into significant roadblocks.

In fact, the rail industry attracts legendary investors such as Warrant Buffett and Bill Gates because it has such huge barriers to entry. Gates is actually CN's largest shareholder.

CN still has to compete with trucking companies and other railways on some routes, so management works hard to ensure the company is very competitive. CN regularly reports an industry-leading operating ratio and is widely viewed as the best-run company in the sector.

The company generates substantial free cash flow and does a good job of returning it to investors through dividend increases and share buybacks.

CN's dividend only yields 1.6%, but the compound annual dividend-growth rate over the past decade is better than 16%.

Fortis

Fortis owns electric transmission, power generation, and natural gas distribution assets in Canada, the United States, and the Caribbean.

The company has grown over the years through a combination of organic projects and strategic acquisitions, and the trend continues.

The latest deal was the purchase of a two-thirds interest in the Waneta dam in British Columbia.

Fortis gets most of its revenue from regulated assets, which means cash flow should be predictable and reliable. This is great for investors who are looking for quality dividend stocks.

Fortis plans to raise its dividend by at least 6% per year through 2021. The company has increased the payout every year for more than four decades, so investors should feel comfortable with the guidance.

The distribution currently provides a yield of 3.5%.

Is one a better bet?

Both companies should be strong buy-and-hold picks for a TFSA portfolio. I would probably split a new investment between the two names.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

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2. NYSE:FTS (Fortis Inc.)
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