New Investors: 1 Top Canadian Dividend Stock to Start Your TFSA

Description

Young Canadians are searching for quality companies to hold inside their Tax-Free Savings Accounts (TFSAs).

The strategy is a popular one, especially for investors who plan to invest the dividends in new shares and hold the positions for decades.

Why?

Over time, the power of compounding works its magic, and a modest initial investment can turn into a significant retirement portfolio.

In a moment, you'll see just how much a small contribution can grow.

Which stocks should you buy?

The best companies tend to be market leaders with strong track records of dividend growth. Ideally, they also operate in sectors with high-entry barriers.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see why it might be an interesting pick.

Wide moat

CN is the only railway in North America that can offer its customers access to three coasts. This is a powerful competitive advantage that is unlikely to change anytime soon.

The odds of new rail lines being built along the same routes are pretty much nil, and merger attempts in the rail industry tend to run into significant regulatory roadblocks.

CN still has to compete with trucking companies and other rail operators on some routes, so the management team works hard to ensure the business is run as efficiently as possible.

They do a pretty good job.

CN is widely viewed as the best run company in the sector and often posts an industry-leading operating ratio.

Look beyond the yield

Some dividend investors bypass the stock because it only provides a yield of 1.6%, but there is much more to the story.

CN has a stellar track record of dividend hikes with a compound annual dividend-growth rate of about

16% over the past decade. The company also returns cash to investors through aggressive share-buyback programs.

The business generates carloads of free cash flow and gets its revenue from a broad array of sectors. When one group has a rough quarter, the others normally pick up the slack.

CN also generates a large portion of its earnings in the United States, providing a nice hedge against any weakness in Canada.

Returns?

A $10,000 investment in CN just 20 years ago would be worth about $279,000 today with the dividends reinvested.

The bottom line

There is no guarantee that CN will generate the same returns over the next two decades, but the strategy of buying top-quality dividend stocks and investing the distributions in new shares is a proven one.

With the creation of the TFSA, young investors can generate substantial retirement funds and not have to worry about paying the taxman a piece of the gains when the time comes to cash out.

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aswalker