



New Investors: 2 Top Canadian Dividend Stocks for Your TFSA

Description

Young Canadians are searching for creative ways to set aside cash to fund a comfortable retirement. This wasn't always necessary, but the world has changed significantly in 20 years.

How?

In the past, a college or university graduate could reasonably expect to find full-time work with pension benefits right out of school.

These days, contract work is more common and full-time positions often come with limited benefits. Health coverage is a bonus now, let alone any pension plan. If a pension is part of the package, it is most likely a defined-contribution arrangement rather than the coveted defined-benefit plan.

In addition, most people were able to afford a house 20 years ago within a few years of starting work, and that simply isn't the case today in many cities.

For those who manage to buy in the current market, there is a good chance the house might not be worth more in the next 15-20 years. So, using the house as a back-up retirement fund comes with more risk.

Benefits of the TFSA

Young Canadians have one savings tool that was not available to their parents and grandparents. It's the Tax-Free Savings Account (TFSA).

The TFSA protects all earnings and capital gains from the taxman, so investors can take the full value of their dividend payments and invest in new shares. This sets off a powerful compounding process that can turn a modest initial investment into a nice retirement stash.

Once the time comes to cash out, any capital gains are tax-free, which means the size of the fund doesn't have to be as large as if it were in a taxable account, or even an RRSP, where the funds are taxed when removed from the plan.

Which stocks should you buy?

The best companies have long track records of dividend growth and are leaders in their respective industries.

Let's take a look at **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) to see why they might be interesting picks.

TD

TD is widely viewed as the safest bet among Canada's big banks. This is due to the company's heavy focus on less-volatile retail banking. TD also has very little direct exposure to the energy sector.

In addition, the bank's U.S. operations have grown to the point where TD has more branches south of the border than it does in Canada, providing a nice hedge against any potential downturn in the Canadian economy.

TD's annualized dividend-growth rate for the past 20 years is 11%.

A \$10,000 investment in TD two decades ago would be worth about \$110,000 today with the dividends reinvested.

CN

CN is the only rail operator in North America that owns tracks linking three coasts. This is a strong competitive advantage that is unlikely to change, as the odds of new lines being built on the same routes are pretty slim, and merger attempts in the sector tend to hit regulatory roadblocks.

The company still competes with trucking companies and other railways in some areas, so management runs a tight ship. The proof is in the results as CN generates significant free cash flow for investors and is widely viewed as the top operator in the industry.

The company's annualized dividend-growth rate over the past two decades is more than 16%.

A \$10,000 investment in the stock 20 years ago would be worth about \$250,000 today with the dividends reinvested.

The bottom line

There's no guarantee that TD and CN will generate the same results over the next two decades, but the strategy of buying top-quality companies and reinvesting the dividends is a proven one.

CATEGORY

1. Dividend Stocks
2. Investing

3. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Tags

1. Editor's Choice

Date

2025/08/25

Date Created

2017/07/21

Author

aswalker

default watermark

default watermark