Young TFSA Investors: Prepare Your Retirement Portfolio for Higher Interest Rates With This Canadian Stock

Description

Young Canadians are searching for creative ways to save money for retirement.

Why?

The current work and housing environment is very different from when their parents or grandparents entered the workforce, and millennials are being forced to seek alternative investment options when planning for their future.

For example, the days of walking out of school and getting a full-time job with juicy pension benefits are pretty much history. Many companies now hire new grads on contracts, and when they do offer full-time employment, the pension benefits that are provided tend to be defined-contribution plans rather than the defined-benefit plans that were common in the past.

This means the risk sits on the shoulders of the employee rather than the company.

In addition, today's boomers and their parents are sitting on significant housing wealth that can be used to cover retirement expenses.

New buyers are not guaranteed to see the same kind of appreciation in the value of their houses, and in some markets, there is a risk that the home won't be worth more in 20 years than it is today. In fact, as interest rates rise, there is a risk that house prices could go through a long period of decline.

So, betting on the house to fund the golden years is less attractive now that interest rates appear to have bottomed.

Fortunately, young investors have one savings tool that wasn't available to their parents and grandparents. It's called the Tax-Free Savings Account (TFSA).

Dividend payments and capital gains earned inside a TFSA are protected from the taxman, which means the full value of distributions can be invested in new shares, and all the money is yours to keep when the time comes to cash out when you retire.

Which stocks should you buy to prepare for rising interest rates?

Top companies should perform well regardless of the interest rate environment, but some sectors tend to benefit more than others when interest rates are rising.

One group to consider right now is the insurance companies, and **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) should be on your radar.

Insurance companies have to set aside a significant amount of cash to cover potential claims, and this money is normally held in fixed-income investments.

As interest rates rise, the return Sun Life and its peers get on these funds should increase, and the impact can be significant when you are looking at billions of dollars.

One positive result should be steady dividend growth.

Sun Life has operations in Canada, the United States, and Asia. The North American market remains important, but Sun Life knows the best growth opportunities are overseas. The company has invested heavily in its Asian operations, with an eye on benefiting from the expanding middle class in countries such as India, Indonesia, Malaysia, and China.

Buy-and-hold TFSA investors have to look a decade or two down the road when considering their stock picks, and Sun Life appears to be attractive right now, as it could see substantial growth from the Asian markets in the coming years.

The bottom line

Young investors can still set aside a significant nest egg for the golden years, and holding quality stocks that should benefit from rising rates is one way to plan for retirement using the TFSA.

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