Young Investors: A Top Dividend-Growth Stock to Start Your TFSA Retirement Plan

Description

Canadians are searching for ways to set aside enough cash to fund a comfortable retirement.

It’s a common preoccupation for people of all ages, but millennials are particularly concerned due to the current employment and housing situation.

What’s going on?

Contract work is becoming more common, so many young Canadians are not part of a company pension plan.

When full-time employment is provided, companies are now moving away from defined-benefit pensions, which guarantee a specific payout when the employee retires. Instead, defined-contribution plans are being offered.

This shifts the risk onto the shoulders of the employees, as the payouts they receive depend on the performance of the funds.

On the housing side, home prices have increased to the point where owning is not affordable for many people, and even when young Canadians are able to buy a house, there is no guarantee it will provide the same retirement safety net that their parents or grandparents currently enjoy.

Fortunately, millennials have a savings tool that wasn’t available to their parents or grandparents at the same age.

It’s called the Tax-Free Savings Account (TFSA).

The TFSA protects all distributions from the tax authorities, so the full value of the dividends can be invested in new shares. This sets off a powerful compounding process that can turn a modest initial investment into a substantial nest egg over time.

When the day comes to cash out and spend the money, any capital gains earned on the investments are also tax-free.

Which stocks should you buy?

The best companies have long track records of dividend growth and tend to be market leaders in industries that enjoy strong barriers to entry.

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

Competitive advantage

CN is the only rail operator in North America with routes that connect three coasts. The situation is unlikely to change, as attempts to merge rail companies tend to run into regulatory roadblocks, and the odds of new tracks being built along the same routes are pretty slim.

Industry leader

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

Dividend growth

CN generates significant free cash flow and does a good job of sharing it with investors. In fact, the annualized dividend-growth rate is about 16% over the past 20 years.

Should you buy?

A $10,000 investment in CN two decades ago would be worth about $230,000 today with the dividends reinvested.

There is no guarantee the company will deliver the same performance in the future, but the stock remains an attractive buy-and-hold pick for TFSA investors.

The bottom line

Young investors can still put some serious cash aside for retirement, and the strategy of buying top-quality dividend-growth stocks and reinvesting the distributions in new shares is a proven one.

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