A Top Canadian Stock for a TFSA Retirement Portfolio

Description

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

Millennials are especially concerned, as contract work is now more common and full-time employment often comes with fewer benefits than in the past.

This is especially true on the pension front, with companies moving away from defined-benefit plans and shifting to defined-contribution programs that put the risk on the shoulders of the employees.

As a result, most young people are required to take part of their pension planning into their own hands.

One option would be to own dividend-growth stocks inside a TFSA. This strategy can be very effective when distributions are invested in new shares.

It takes some patience, but the compounding process is powerful and has the potential to turn relatively small investments into large savings funds over the course of two or three decades.

The best stocks to own tend to be market leaders with strong track records of dividend growth.

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 North American rail operator that owns tracks connecting to three coasts. The advantage is an important one, and is unlikely to change anytime soon.

Why?

Attempts to merge railways have historically run into regulatory roadblocks, and the odds of new tracks being installed along the same routes are fairly slim.

CN still has to compete with trucking companies and other rail carriers in some regions, so management works hard to ensure that it’s operating as efficiently as possible.

CN regularly reports an industry-leading operating ratio and is widely viewed as the top company in the sector.

Dividend growth

The business generates significant free cash flow, and CN is generous when it comes to sharing the profits with investors. The company has a compound annual dividend growth rate of about 16% over the past 20 years.

CN also has a history of aggressively buying back its common shares, which also benefits investors.

U.S. exposure

CN gets a large part of its revenue and profits from its U.S. operations. This provides a nice hedge against any potential weakness in the Canadian economy and can give earnings a boost when the U.S. dollar strengthens against the loonie.

Returns

Long-term investors have done very well with this stock. In fact, a $10,000 investment in CN two decades ago would be worth more than $250,000 today with the dividends reinvested.

Should you buy?

There is no guarantee that CN will deliver the same returns over the next 20 years, but the stock should be an attractive buy-and-hold pick for a TFSA portfolio, and the strategy of owning dividend growth stocks and investing the distributions in new shares is a proven one.

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aswalker