Young Investors: 2 Reliable Dividend-Growth Stocks to Launch Your TFSA Retirement Fund

Description

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

This wasn't always a big issue, but times have changed over the past 25 years, and the retirement-savings opportunities that were available for the parents of today's millennials are generally not as common or lucrative.

What's going on?

Today's new grads and young professionals often find themselves on contract work for the first few years of their careers. This is quite different from the situation as recently as 20 years ago, when more companies were comfortable taking people on full time and willing to invest in training.

When a permanent position is finally offered, the benefits packages can vary significantly. Most pension plans are now defined-contribution arrangements, rather than defined-benefit plans. Under a defined-contribution plan, the risk is essentially shifted on to the shoulders of the employee, as the payouts at retirement depend on the performance of the portfolio. Under a defined-benefit plan, the payouts are guaranteed by the company, as long as it doesn't go bankrupt.

To make matters more complicated, millennials are faced with an expensive housing market. If they manage to buy a home, the odds are pretty good they won't see the price gains their parents have enjoyed, so relying on the house as a retirement safety net might not be an option.

Fortunately, young Canadians have the Tax-Free Savings Account to help them set some cash aside for the golden years. People of all ages use the TFSA for different reasons, but young investors can really take advantage of the tax-free status by owning dividend-growth stocks and investing the distributions in new shares.

Over time, the power of compounding can turn a modest initial investment into nice nest egg, and all the distributions and capital gains are tax-free.

Let's take a look at two companies that might be interesting picks to get you started.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

CN is the only rail operator in North America with tracks connecting three coasts. This is an important advantage that is unlikely to change anytime soon. The odds of new tracks being built along the same routes are pretty slim, and rail merger attempts tend to run into regulatory roadblocks.

The company generates significant free cash flow and has a long track record of returning the profits to investors through share buybacks and dividend increases. In fact, CN raised the distribution by 10% for 2018.

Long-term investors have enjoyed some nice returns with this stock. A $10,000 investment in CN 20 years ago would be worth more than $160,000 today with the dividends reinvested.

BCE Inc. (TSX:BCE)(NYSE:BCE)

BCE is a giant in the Canadian communications sector and continues to grow.

The company made two key acquisitions and launched a new business in the past year in a bid to expand its strong position in the industry. BCE bought Manitoba Telecom Services in a move that bumped it into top spot in the Manitoba market. In addition, the company purchased home security provider AlarmForce. Finally, BCE rolled out Lucky Mobile, its re-entry into the low-cost prepaid mobile segment.

BCE raises its dividend on a steady basis in line with free cash flow growth. The generous payout currently provides a yield of 5.5%.

A $10,000 investment in BCE just 15 years ago would be worth more than $40,000 today with the dividends reinvested.

The bottom line

Young Canadians can take advantage of the TFSA to set aside some serious cash for retirement. There is no guarantee CN and BCE will generate the same returns over the coming 15 or 20 years, but the strategy of buying quality dividend stocks and investing the distributions in new shares is a proven one.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)

2. NYSE:CNI (Canadian National Railway Company)
3. TSX:BCE (BCE Inc.)
4. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/07/02
Date Created
2018/03/29
Author
aswalker