2 Top Canadian Stocks to Start Your TFSA Today

Description

Young Canadians are searching for top-quality companies to put inside their TFSA portfolios.

Let's take a look at **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) to see why they might be interesting picks.

CN

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.

Why?

The odds of new tracks being built along the same lines are pretty slim, and attempts to merge railways tend to run into regulatory roadblocks. CN still has to compete with trucking companies and other rail carriers on some routes, so it works hard to ensure the network is operating as efficiently as possible.

The management team increased the 2018 capital program to $3.4 billion, with $400 million allocated to new track infrastructure. CN is also taking delivery of 60 new locomotive this year as part of a 200-unit order, and it recently announced plans to purchase 350 specialized cars for hauling lumber. This comes on the heels of an order for 350 new boxcars.

In addition, CN is on a hiring spree, adding 1,250 conductors by next winter.

The company generates significant free cash flow and has a strong track record of dividend growth. CN raised the payout by 10% for 2018. At the time of writing, the stock provides a yield of 1.8%.

A tough winter and some upheaval in the executive suites hit the stock earlier this year, but CN appears to be getting back on its feet. The stock has rebounded from $91 per share at the beginning of March to $101, but it's still down from the 12-month high near $108.

Long-term investors have done well with CN. A $10,000 investment in the stock just 20 years ago would be worth more than $175,000 today with the dividends reinvested.

Bank of Nova Scotia

Bank of Nova Scotia is betting big on Latin America, with a specific focus on Mexico, Chile, Peru, and Colombia.

Why?

The four countries make up the core of the Pacific Alliance trade bloc, which was set up to enable the free movement of workers, capital, and goods. The stock markets have merged, and tariffs on most products have been eliminated in a combined market that is home to more than 200 million people.

Bank of Nova Scotia continues to invest in the region with the recent US$2.2 billion deal to purchase a majority stake in BBVA Chile. The international operations already generate close to 30% of Bank of Nova Scotia's profits.

The company has a strong track record of dividend growth and recently bumped up the quarterly payout by $0.03 to $0.82 per share. That's good for a yield of 4.1%.

Returns?

A $10,000 investment in Bank of Nova Scotia 20 years ago would be worth more than $80,000 today with the dividends reinvested.

The bottom line

There are no guarantees that CN and Bank of Nova Scotia will generate the same results over the next two decades, but the strategy of buying top-quality dividend stocks is a proven one, and reinvesting the distributions can harness the power of compounding and turn modest initial investments into a nice nest egg.

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1. Editor's Choice

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

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