How a $5,000 TFSA Investment Can Become $100,000 in 20 Years

Description

Canadians are taking advantage of the TFSA to build savings portfolios that will help them meet a variety of financial objectives, including a new house, a cottage, or a retirement fund.

Regardless of the planned use for the cash, the ideal situation is to grow the portfolio without having to babysit the investments. GICs are certainly safe, but they don't offer much yield. Another strategy involves owning high-quality dividend stocks and using the distributions to buy more shares. This enables the investor to take advantage of a powerful compounding process, while also benefiting from potential increases in the share price.

Which stocks should you buy?

The best companies to own tend to be industry leaders with strong competitive positions. Their dividend growth and share buybacks are supported by rising revenue and free cash flow, and they should have ample capital available for ongoing investment in the business.

Let's take a look at **Canadian National Railway** (TSX:CNR)(NYSE:CNI) to see if it might be an interesting pick for investors who would like to follow this game plan.

Market leader

CN owns and operates 19,500 route miles of tracks that run across Canada and through the heart of the United States, giving customers important access to three coasts. The reach is unique in the rail sector and serves as an important competitive advantage for the company. The odds of new tracks being built by another company along the same routes are pretty much nil, and merger attempts normally run into regulatory roadblocks.

Diversified revenue stream

CN provides services to a wide scope of business segments, including oil and petrochemicals, coal, grain and fertilizers, lumber, automotive, intermodal, metals and minerals. No single segment accounts for more than 25% of revenue, and when one group hits a rough economic cycle, the others normally pick up the slack.

In addition, the company generates a large chunk of its revenue in the United States, providing a nice hedge against trouble in Canada.

Dividend growth and share buybacks

CN generates carloads of free cash flow. The board just raised the dividend by 18% for 2019, which is pretty much par for the course with this company. CN has a compound annual dividend-growth rate of about 16% over the past two decades.

In addition, management has a share-repurchase program in place that will see the company buy back up to 22 million shares through most of 2019.

Investment

CN is investing $3.9 billion in 2019 on new locomotives, additional rail cars, and infrastructure improvements along the network, including new tracks and intermodal hubs. This should improve efficiency while accommodating rising demand across a number of its segments.

Returns

A $5,000 investment in CN just 20 years ago would be worth about $125,000 today with the dividends reinvested.

The bottom line

While there is no guarantee CN will deliver the same results over the next two decades, the stock remains an attractive buy-and-hold pick for a TFSA portfolio and is a great example of how using distributions to acquire new shares can turn modest initial investments into significant savings over time.

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