Income Investors: A Powerful Dividend Growth King to Put You on the Fast Track to a Million-Dollar TFSA

Description

Don't underestimate the power of dividend growth investing. Caught at the intersection between growth and value, you have stocks that are not quite the mega-high-yielding, no-growth stalwarts, but they're also not quite the growth kings that speculative young investors would find "sexy."

Indeed, dividend growth investing is a relatively well-known strategy among the super rich, but I believe its power over the long-term is harder to fathom for today's beginner investors who may be chasing returns over the near- or medium-term with little consideration for how large the dividend will stand to grow for an investment period.

While DRIP and big-income names may be enough to satisfy the income-savvy who wants to maximize growth within their TFSAs, such names may not have what it takes to obtain the greatest risk-adjusted returns over the long haul. If a company is paying out most of its free cash flows in the form of a dividend, you'd be hard-pressed to see any meaningful growth relative to a dividend growth company with exceptional stewards with the talent to balance dividend payouts with organic growth effectively.

A big income name like a REIT, which is required to distribute 90% of net income to shareholders, won't get much growth over a 20-year period relative to a proven dividend growth king like **Canadian National Railway** (TSX:CNR)(NYSE:CNI), which has been hiking its dividend through thick and thin for decades. Along the way, there have been massive capital gains as well, and if you reinvested your dividends through a DRIP or something similar through the years, you would have found yourself sitting on a mountain of wealth that continued growing and growing.

Massive dividend growth: a safer assumption to make

Add the low-double-digit to high-single-digit annual dividend hikes into the equation, and you've got an income stream that's also growing every single year. Today, CN Rail has an unremarkable 1.64% yield. When you consider the consistency of dividend hikes, assumptions like 10% in dividend CAGR numbers are safer assumptions to make than 9% in capital gains per year over a long-term horizon with an **S&P 500** index fund.

Markets fluctuate, crashes happen, and it's tough to pinpoint an expected return on the broader market. With CN Rail and its dividend, however, you're getting a continuously growing operating cash flow stream that's secured by the company's wide moat. The company essentially is a member of a national duopoly (or continental oligopoly), so with little distraction to disrupt cash flows and many innovations to improve operating ratios, CN Rail is well-positioned to continue improving upon itself year after year regardless of who's at the helm.

How powerful is CN Rail's dividend?

For the patient investor, CN Rail is a gravy train to store your excess TFSA cash in. With the assumptions of regular dividend hikes, you can realistically expect the dividend yield based on your original principal to double every five (or six) years. The longer you hold the stock; the bigger your yield will become. In 10 years, CN Rail will have an income stream that'll provide you with income that's comparable to a no-growth telecom. The only difference is your income stream will grow quicker, and you'll also have significant capital gains to show for it!

Foolish takeaway on CN Rail

I don't know about you, but CN Rail is the "sexy" stock that deserves more attention from the mainstream financial media. For those who are serious about long-term investing, CN Rail will help you keep your investment goals on the right track (pun intended).

Stay hungry. Stay Foolish.

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