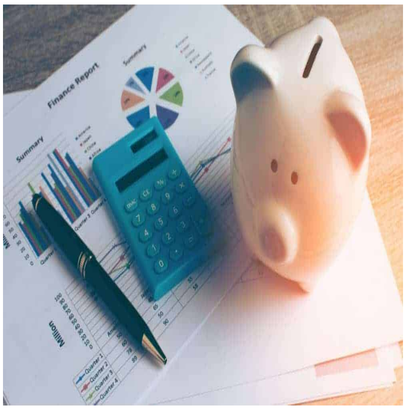

How Young Investors Can Build a $1.8 Million TFSA Retirement Fund

Description

Millennials are faced with retirement challenges that were not present when many of their parents or grandparents entered the working world.

In the past, most people walked out of college or university and straight into full-time work at companies that offered attractive pay and generous benefits, including pension plans. Those opportunities still exist, but they are not as common, especially when it comes to defined-benefit pensions that guarantee a payout for your entire retired life.

Today, many businesses are employing more people on contracts without benefits, and when a full-time gig is offered, the pension component of the compensation is often a defined-contribution plan. In this situation, the employer kicks in a percentage to match the employee's contributions but isn't on the hook in the event the fund doesn't generate adequate returns.

As a result, young Canadians have to take more responsibility for their retirement planning. Fortunately, there are ways to build a substantial self-directed portfolio.

One option involves using the TFSA to own stocks that provide consistent dividend growth supported by rising revenue and earnings. When the distributions are used to buy additional shares, investors can leverage the power of compounding. Over the course of two or three decades, relatively modest initial investments can grow to become large retirement portfolios, and inside the TFSA, all of the earnings and capital gains are protected from the tax authorities.

The TFSA contribution limit currently stands at $63,500 for any Canadian resident who was at least 18 years old in 2009 when the program was launched.

Let's take a look at two stocks that have helped investors create an attractive retirement fund.

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

CN carries all the raw materials and finished goods that keep the North American economy moving along at a steady clip. With rail lines that uniquely connect three coasts, the company also enjoys an important competitive advantage.

CN generates strong free cash flow and has a solid track record of sharing the profits with investors. The distribution just increased by 18% for 2019.

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

Royal Bank (TSX:RY)(NYSE:RY)

Royal Bank is a financial giant with a market capitalization of nearly $150 billion. The bank is an earnings machine, generating average monthly profits of better than $1 billion through fiscal 2018.

The company is investing significant funds to ensure it remains competitive in the digital era and earnings growth is expected to be 7-10% per year over the medium term. Dividend hikes should continue in line with the rising profits. The existing distribution provides a yield of 4%.

A $5,000 investment in Royal Bank of Canada 20 years ago would be worth more than $55,000 today with the dividends reinvested.

The bottom line

A couple with $50,000 each equally invested in CN and Royal Bank two decades ago would be sitting on $1,800,000 right now if they had reinvested all the distributions in new shares. Several other top Canadian companies have also generated growth of at least 10 times the initial investment over the same timeframe.

These stocks might not deliver the same performance over the next 20 years, but the strategy is a proven one, and young Canadians can still build a substantial self-directed nest egg.

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)
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