Is TD Bank (TSX:TD) or Canadian National Railway (TSX:CNR) a Better Stock to Begin a TFSA Retirement Fund?

Description

Canadian savers are searching for ways to set aside adequate cash to fund a comfortable retirement.

One popular strategy that has emerged in the past 10 years is to hold dividend-growth stocks inside a TFSA and use the distributions to purchase additional shares. Since its inception in 2009, the TFSA contribution room has grown to $63,500, which is large enough to begin building a solid retirement portfolio.

Let's take a look at two stocks that might be interesting picks today to launch your TFSA pension fund.

TD Bank (TSX:TD)(NYSE:TD)

TD has a long track record of raising its dividend. In fact, the company's compound annual dividend-growth rate over the past 20 years is about 11%.

The bank generated $12 billion in profits in fiscal 2018, and investors should see earnings per share rise 7-10% per year over the medium term. The Canadian and U.S. economies are in decent shape with unemployment rates at their lowest levels in decades. TD has a large U.S. division that provides more than a third of the company's profits. This is important for investors who want exposure to the U.S. and are looking for stocks that have a hedge against a downturn in Canada.

One potential threat would be a crash in the Canadian housing market. TD has a large mortgage portfolio, and a meltdown in house prices would be negative, although most pundits now expect a soft landing. So far, efforts by the government to deflate the housing bubble appear to be working, and the halt in interest rates hikes should provide additional support for homeowners who need to renew their loans.

TD's stock is not as cheap as it was in December, but trying to time short-term lows is difficult, and history suggests any pullback tends to be a decent buying opportunity. TD currently trades at $73.50 per share, which is below the 12-month high of $80. Investors who buy the stock today can pick up a yield of 4%.

A $10,000 investment in TD just 20 years ago would be worth about $75,000 today with the dividends reinvested.

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

CN is one of those stocks investors can buy and simply forget for decades. The company serves an integral role in the operation of the Canadian and U.S. economies and is the only rail carrier in North America with lines connecting three coasts.

CN generates significant free cash flow and is able to spend the funds needed to ensure it remains competitive and efficient, while still rewarding investors through large dividend increases and share buybacks. CN has raised the distribution by a compound annual rate of about 16% over the past two decades and bumped up the payout by 18% for 2019.

A $10,000 investment in CN two decades ago would be worth more than $220,000 today with the dividends reinvested.

The bottom line

TD and CN are leaders in their respective industries and have proven track records of dividend growth supported by rising revenue and earnings. Both are top TSX Index stocks to start your TFSA retirement portfolio and deserve to be on your radar. However, if you only buy one, I would probably make CN the first choice today.

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