3 Compound Growth Machines That Deserve a Spot on Your TFSA

Description

Albert Einstein once called compound growth the most powerful force in the universe. Even the most modest rate of expansion can lead to exponential growth if sustained for long enough. Investment heavyweights like Warren Buffett and Peter Lynch have applied this phenomenon to create enormous value over decades.

Investors can replicate the formula by adding stocks that are already on an exponential growth path. There's no doubt that companies with a steady rate of return on invested capital, wide margins, high cash flows, and extensive market opportunity deserve a spot on every value-oriented tax-free savings account.

Here are some of the best options:

Constellation Software

If Warren Buffett focused on technology and enterprise software, his company would have looked like **Constellation Software Inc** (TSX:CSU). The firm zeroes in on niche software providers who dominate their segment of the enterprise market. Acquiring these firms drives the company's incremental growth in earning power.

Over the years, Mark Leonard, a former venture capitalist, and his team have absorbed over 300 companies and delivered a stellar return for long-term shareholders. The stock has delivered a 38% compounded annual return since its initial public offering in 2006.

The company's potential acquisition universe still includes over 38,000 software vendors spread across 12 verticals, so it isn't running out of room to grow anytime soon.

The stock currently trades at 32 times forward earnings and offers investors a 0.46% dividend yield. The price could be justified when adjusted for its growth potential.

Fairfax Financial

Indo-Canadian billionaire Prem Watsa has often been described as the Canadian Warren Buffett. That's because his track-record of investing in great companies at attractive prices is on par with the Oracle of Omaha.

Watsa has managed to expand **Fairfax Financial Holdings'** (TSX:FFH) book value by an average of 20% compounded every year for the past two decades. The company is now worth $17.6 billion, offers a 2.1% dividend yield, and trades at a 45% premium to book value.

In recent years, Fairfax has launched ventures in both Africa and India to drive growth to the next level. With its emerging market ventures and long track record of wealth creation, Fairfax is an ideal addition to any growth investor's portfolio.

Brookfield Asset Management

Canada's largest alternative asset management company has had such incredible success managing clients' money that its own portfolio is now on par with some of the world's biggest institutional investors.

Brookfield Asset Management (TSX:BAM.A)(NYSE:BAM) targets an annual return on equity in the range of 12-15% and annual distribution growth of 5-8% through its property, private equity, renewable energy and infrastructure investments. The stock has quintupled over the past 10 years and currently offers a 1.33% dividend yield.

Brookfield manages to balance growth and income for investors who want exposure to alternative assets at a fraction of the risk involved in these asset classes. Currently, the stock trades at a 72% premium to book value and offers a 1.7% dividend yield, which seems overvalued.

Perhaps an economic slowdown could offer better points of entry for investors seeking a bargain on this stellar stock.

Bottom line

All three of the companies on this list have decades of experience compounding wealth. Steady growth stars like these deserve a spot on every retail investor's portfolio, regardless of their investment style.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:BN (Brookfield)

3. TSX:CSU (Constellation Software Inc.)
4. TSX:FFH (Fairfax Financial Holdings Limited)

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