How to Turn Your Annual $6,000 TFSA Contribution Into a Massive Retirement Fund

Description

Canadian investors are using their self-directed TFSA to help build savings funds as part of their retirement planning process.

The strategy makes sense, especially for younger investors who have the benefit of time to take advantage of the power of compounding. Inside the TFSA, the dividends generated by Canadian stocks are not taxed. This means the full value of the distributions can be used to buy new shares. Over time, the compounding process takes effect and relatively small initial investments can become substantial pools of money.

When the day arrives to sell the stocks and start spending the cash, the capital gains are also tax-free. That's important to consider, as it means the total size of the fund doesn't have to be as large as it would in a taxable trading account.

The TFSA contribution limit has grown to $63,500 since its inception in 2009. The annual increase is expected to be at least $6,000, so Canadian residents have ample contribution space to build a large retirement portfolio.

Which stocks are attractive picks?

The TSX Index is home to many great companies. History suggests the best stocks to buy are industry leaders with wide moats. They have solid track records of revenue and earnings growth and generate adequate free cash flow to support investment and rising dividends.

Let's take a look at **Canadian National Railway** (TSX:CNR)(NYSE:CNI) to see why it might be an interesting choice to get you started.

Competitive advantage

CN is the only rail company in North America with tracks that connect to ports on three separate coasts. This is an important advantage that is unlikely to change, as railway merger efforts usually run into regulatory roadblocks, and the odds of new tracks being built along the same routes are pretty much nil.

CN has a balanced revenue stream coming from several economic segments, and it gets a large part of its earnings from the U.S. operations.

Management does a good job of investing in the business to ensure CN remains at the top of the industry. The company has a record capital program of $3.9 billion in 2019 with funds directed at the purchase of new locomotives, additional rail cars, and upgrades to the network.

CN still has lots of free cash flow left over to hand out to investors. The company increased the dividend by 18% in 2019 and has a compound annual dividend-growth rate of about 16% over the past 20 years.

Returns

Long-term investors have done well with the stock. A $6,000 investment in CN just 20 years ago would be worth about $120,000 today with the dividends reinvested. A $60,000 investment would be worth more than $1.2 million.

Should you buy CN?

CN plays an integral part in the functioning of the North American economy and that should continue to be the case for decades. If you are searching for a top-quality stock to start your self-directed TFSA retirement portfolio, CN deserves to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

3. Stocks for Beginners

Date
2025/08/19
Date Created
2019/06/30
Author
aswalker