2 Top Stocks to Build TFSA Wealth

Description

Canadians are using their Tax-Free Savings Accounts (TFSAs) to create self-directed pension funds as part of their overall planning process for retirement.

A popular strategy involves buying reliable dividend stocks and using the distributions to acquire additional shares.

Once the ball gets rolling, the power of compounding kicks in and can turn relatively small initial investments into significant savings over time. In fact, some investors retire quite rich.

The recent correction in the stock market is now giving investors a chance to pick up some top stocks at reasonable prices. Let's take a look at two companies that might be interesting picks for your TFSA today.

Royal Bank of Canada

Royal Bank (TSX:RY)(NYSE:RY) is Canada's largest company and a leader in the banking sector.

The bank generated more than $12 billion in profit in fiscal 2018 and is on track to beat that amount this year, despite facing some challenging headwinds.

Royal Bank has a balanced revenue stream with strong operations across a number of segments, including personal and commercial banking, capital markets, wealth management, insurance, and investor and treasury services.

The firm is well capitalized with a CET1 ratio of 11.8%. This means it has the means to ride out any potential downturn in the economy or even another financial crisis.

Return on equity was a solid 17.5% in fiscal Q2 2019, and earnings are expected to rise by 7-10% per year on a per-share basis over the medium term.

The dividend currently offers a yield of 4%.

Investors who purchased $10,000 in Royal Bank shares 20 yeas ago would have $120,000 today with the dividends reinvested.

CN

Canadian National Railway (TSX:CNR)(NYSE:CNI) is another Canadian profit machine.

The company plays an integral role in the operation of the Canadian and U.S. economies, and the nature of the rail sector should ensure the good times will continue.

Why?

CN is the only North American railway with tracks connecting to ports on three coasts. This gives it an advantage when securing agreements with both domestic and international customers. Mergers are rare in the industry, and the odds are slim that new tracks will be built along exiting routes.

CN's dividend yield might appear low at just 1.8%, but the growth in the payout is more important than the current return. CN has raised the distribution by a compound annual rate of roughly 16% over the past 20 years.

The company is investing about $4 billion in 2019 to ensure it can meet growing demand for its services and is operating efficiently. At the same time, CN still has adequate cash left over to buy back shares while boosting the dividend. CN hiked the distribution by 18% for 2019.

A $10,000 investment in CN two decades ago would be worth $200,000 today with the dividends reinvested.

The bottom line

A couple who'd invested $20,000 equally split between these two stocks 20 years ago would be sitting on $320,000 right now if they used all the dividends to buy additional shares.

Royal Bank and CN might not generate the same results over the next two decades, but they should still be top picks for a self-directed TFSA retirement fund.

A number of top Canadian stocks have generated great returns over the years and several now appear oversold after the recent pullback in the market.

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