TFSA Alert: 1 Top Stock to Start Your Retirement Fund

Description

Canadians are using their Tax-Free Savings Accounts (TFSAs) to save money as part of their overall retirement planning strategy.

The TFSA contribution room is set to grow an additional $6,000 in 2020. That would put the cumulative limit at $69,500 for Canadian residents who were at least 18 years old when the program began 10 years ago.

Using the TFSA to owns dividend stocks is one way to build your savings fund without doing too much work. When dividends are invested in new shares, the power of compounding kicks in and can turn a reasonably modest initial investment into a substantial nest egg for the golden years.

Which stocks are the best picks?

History suggests the top stocks to own are industry leaders with strong track records of dividend growth supported by rising revenue and ample free cash flow.

Let's that a look at **Canadian National Railway** (TSX:CNR)(NYSE:CNI) to see why it might be an interesting pick to start your TFSA retirement portfolio.

Essential services

CN effectively serves as the backbone of the Canadian and U.S. economies with tracks that connect ports on the Pacific and Atlantic coasts in Canada. The network also extends right through the heart of the U.S. to the Gulf Coast.

CN is the only rail operator that owns rail lines connecting the three key water bodies, giving it an important competitive advantage when negotiating with domestic and international customers who need to ship goods to and from key Canadian and U.S. regions.

Investment

CN knows it has to invest to meet growing demand for its services while improving efficiency and upgrading its infrastructure. The company's 2019 capital budget is $3.9 billion and includes allocations for new locomotives and rail cars, as well as investments in technology to improve efficiency across the network.

Earnings

CN is a profitable company with revenue coming from a variety of business segments. When one group has a slow quarter, the other business units tend to pick up the slack. In addition, CN derives a good chunk of its revenue and profits from the U.S. operations. When the American dollar rises against its Canadian counterpart, the bottom line can get nice boost on the conversion.

CN generated record results in Q2 2019. Revenue increased by 9% compared to the same period in 2018. Operating income increased 11%, led by strong growth in the petroleum and chemicals segment and the intermodal group.

Adjusted earnings per share came in at $1.73 compared to $1.52 in the same quarter last year.

Free cash flow was $513 million in the quarter and $1.3 billion for the first half of 2019.

Dividends and share buybacks

CN raised its dividend by 18% for 2019, and investors should see strong payout growth continue in the coming years. The company's compound annual dividend-growth rate over the past 20 years is about 16%.

CN also allocates part of its free cash flow to repurchase stock.

Returns

Long-term owners of the stock have enjoyed stellar returns. A $10,000 investment in CN just two decades ago would be worth roughly $200,000 today with the dividends reinvested.

The bottom line

CN should continue to be a solid buy-and-hold stock for self-directed investors who want to build a TFSA retirement portfolio.

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