TFSA Pension: How to Turn $100,000 Into a $2 Million Retirement Fund

Description

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

Company pensions used to be the main source of retirement income, but the emergence of the gig economy is changing the game, as contract work provides no benefits at all.

In addition, people who have full-time corporate jobs are now more likely to have defined-contribution pension plans, as opposed to defined-benefit plans. The former shifts the risk to the employee, as the payouts are determined by the growth of the funds, rather than being guaranteed, as they are under the defined-benefit system.

Even with a company pension, CPP, and OAS payments, people still feel they need to have additional income sources. Life isn't getting any cheaper, and Canadians are living longer.

One popular strategy involves buying top dividend-growth stocks inside a Tax-Free Savings Account (TFSA) and using the distributions to buy more shares. This sets off a compounding process that acts like a snowball rolling down the mountain. Over the course of two or three decades, a relatively modest initial investment can become a substantial retirement nest egg.

Which stocks should you buy?

The best performers have historically been industry leaders with strong track records of rising revenue and profits that support steady dividend growth.

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

Wide moat

The rail networks that carry raw materials and finished goods across Canada and throughout theUnited States were built a long time ago, and cities have developed around the infrastructure.

In the case of CN, the company is the only rail carrier with connections to three ports, giving it a strong competitive advantage. The odds of new tracks being built to serve the same routes are very slim, and merger attempts among the large railways that serve the U.S. and Canadian markets normally get refused by regulatory authorities.

CN still needs to ensure it operates efficiently and can compete with other railroads on some routes and trucking companies. The company invests significant funds to upgrade its network and is embracing new technology to reduce costs and improve the performance of its vast system.

In 2019, CN is spending nearly $4 billion on capital initiatives, including the purchase of new locomotives and rail cars to make sure it can meet rising demand for its services.

Dividends and share buybacks

Reliable dividends and steady increases to the payouts require solid growth in free cash flow.

CN is a very profitable company, and despite the large investments, it still has ample cash left over to increase the dividend by a healthy amount each year. The board raised the dividend by 18% in 2019 and has provided investors with a compound annual increase of about 16% over the past 20 years.

In the first half of 2019, CN generated adjusted net income of $2.1 billion and $800 million in free cash flow.

CN also rewards shareholders through its share-repurchase program. The buybacks serve to reduce the number of shares outstanding, which results in remaining shareholders receiving a bigger piece of the profit pie.

Returns

A single $10,000 investment in CN just two decades ago would be worth $225,000 today with the dividends reinvested. This means a couple with $100,000 invested in CN at that time would now be sitting on more than $2 million!

Past results do not guarantee future gains, but the strategy of buying reliable dividend-growth stocks and using the distributions to acquire more shares is a proven one.

CN is just one company among a handful of top Canadian stocks that have delivered great returns over the years and should be solid picks for a TFSA pension fund.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/25
Date Created
2019/10/15
Author
aswalker