TFSA Wealth: How a $6,000 Investment Can Turn Into $126,000

Description

Canadians are searching for creative ways to grow their retirement portfolios.

This is increasingly important in the new era of employment where many people work on contracts in the gig economy, or are choosing to be self-employed as entrepreneurs instead of being part of a corporate giant.

The freedom and flexibility of hopping between jobs or running your own show comes with a cost. You don't have access to all the benefit plans that might be otherwise available.

That said, full-time employees are also being forced to take some retirement planning into their own hands.

Why?

Businesses that provide full-time employees with pension programs are now switching from defined benefit plans to to defined contribution plans where the risk is shifted onto the shoulders of the worker. The payouts at retirement are determined by the performance of the fund, rather than being guaranteed.

The arrival of the Tax-Free Savings Account (TFSA) a decade ago provided Canadians with a new vehicle to save for retirement, in addition to the existing Registered Retirement Savings Plan.

Canadian residents over the age of 18 can contribute up to $6,000 in 2019 to their TFSA. The cumulative space is as high as $63,500 since the program's inception.

Investing the funds in top-quality dividend stocks is one way to take advantage of the tax-free nature of the TFSA. The full value of the distributions can be invested in new shares. This sets off a snowball effect that can turn a reasonably small initial investment into a substantial retirement fund over the course of many years.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see why it has proven to be a good long-term pick for a retirement portfolio.

CN is one of those rare companies that has a sustainable strategic competitive advantage. Its tracks connect two coasts in Canada and the Gulf of Mexico, giving CN's American and Canadian customers access to global shipping routes. The lines also serve most of the key transport hubs in the two countries.

CN spends heavily on infrastructure upgrades to ensure it remains efficient and can compete with trucking companies and other rail carriers. In 2019 CN is spending nearly $4 billion. This also includes new locomotives and additional rail cars.

The combination of business activities in both Canada and the U.S. gives CN a balanced revenue stream. The bottom line can get a nice boost when the U.S. dollar strengthens against the loonie.

CN generates significant profits and carloads of free cash flow. This is key to the company's long track record of rewarding investors with share buybacks and dividend hikes. The board has raised the payout by a compound annual rate of about 16% over the past 20 years. The 2019 increase was 18%.

Returns?

Long-term investors have done well with the stock. A $6,000 investment in CN just two decades ago would be worth about $126,000 today with the dividends reinvested.

Someone who invested $60,000 would now be sitting on $1.26 million!

Diversification is always recommended and CN is just one stock in a basket of companies in the TSX Index that have generated significant long-term returns and continue to be attractive picks for a retirement portfolio.

CATEGORY

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2. Investing

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