Retire Rich: How TFSA Investors Can Turn $50,000 Into a $1 Million Wealth Fund

Description

Retirement income can come from a number of sources.

Historically, Canadians worked at the same company for 30 or 40 years and then retired with a generous defined-benefit pension that guaranteed a certain payout until death. This income stream, when combined with CPP and OAS payments, normally covered the cash flow required to enjoy a comfortable retirement.

That situation still exists for some people, but it is becoming increasingly rare.

Why?

A desire for more freedom or greater flexibility in the work we do and the way we live has resulted in a shift in how our careers unfold. Many Canadians now change companies and industries several times over the course of their working lives. This might be more fulfilling, but it can result in a patchwork of mixed pensions.

In addition, more people take career breaks to travel, study, or pursue entrepreneurial ambitions. These years are exciting but tend to punch a hole in the retirement program.

Furthermore, the emergence of the gig economy has led to a new wave of contract work. This benefits companies and gives workers more control over their schedules, but contract work normally doesn't come with any benefits.

As a result, the need to take control of one's own retirement planning is becoming more important.

People are familiar with using RRSP contributions as a method of saving for retirement. This is particularly attractive for Canadians who find themselves in the higher tax brackets. RRSP contributions can be used to reduce taxable income today. The tax payments are made later on when the funds are withdrawn.

The Tax-Free Savings Account (TFSA) is another useful tool to build a self-directed retirement fund.

Launched in 2009, the TFSA now has a cumulative contribution space of up to $63,500 per person. That's adequate to start a solid retirement portfolio.

One popular TFSA strategy is to buy quality dividend stocks and use the distributions to acquire additional shares. With time, the original investment can snowball into a substantial pile of cash for retirement.

Let's take a look at one example of a stock that has performed well for long-term investors and should continue to be a top pick.

CN

Canadian National Railway (TSX:CNR)(NYSE:CNI) is all over the headlines in recent days due to a large employee strike. Provincial leaders across the country are calling on the federal government to step in and resolve the situation, as the strike by more than 3,000 workers is putting all types of businesses in a tough spot.

The situation sheds light on how strategically important CN is for the Canadian and U.S. economies. As an investor, that's the kind of company you want to own.

CN generates strong profits and invests the funds required to ensure it remains competitive with other rail carriers and trucking companies. Network upgrades, new rail cars, additional locomotives, and investments in technology are all part of the $3.9 billion 2019 capital program.

CN uses the excess free cash flow to buy back shares and increase dividends. The board raised the distribution by 18% in 2019.

Returns

CN has made some investors quite rich.

In fact, a couple who each invested $25,000 in CN just 20 years ago would now have a combined $1,075,000 with the dividends reinvested.

The stock might not generate the same results over the next two decades, but CN should continue to be a solid anchor for a diversified TFSA portfolio.

The TSX Index is home to a number of top-quality companies that have made buy-and-hold investors wealthy.

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