



## TFSA Investor 101: How to Create a Substantial Tax-Free Wealth Fund for Retirement

### Description

Canadian savers are searching for ways to build significant [retirement savings](#) without having to share any of the gains with the Canada Revenue Agency.

Investments that are held in taxable accounts are subject to income taxes any time there is interest earned, a dividend paid, or a capital gains generated through the sale a stock. This erodes the cash available to invest in new opportunities, thus limiting the growth potential of the portfolio.

The RRSP has served as a helpful savings tool since the 1950s and remains a popular option, especially for investors who find themselves in higher marginal tax brackets and want to use the contribution to lower their taxable income. At the back end, however, RRSP funds are taxed when they are withdrawn.

Another option that is becoming popular is to invest in quality [dividend stocks](#) inside a Tax-Free Savings Account (TFSA). The TFSA has been around for a decade, and the contribution limit is now at \$69,500, which is adequate to create a solid portfolio of diversified stocks.

All dividends and capital gains that are generated inside the TFSA are yours to keep and can be fully invested in new stock. Over time, the compounding process of reinvesting dividends can make a significant difference in the size of the fund. When the time comes to pull the funds and spend the money, the full amount can go right into your pocket.

Let's take a look at one top Canadian dividend stock that has performed well over the years and should be a solid pick to anchor a balanced portfolio.

**Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) is one of Canada's largest companies and is a leader in the North American rail industry.

The firm has a rail network of nearly 20,000 route miles running from coast to coast in Canada and down through the United States to the Gulf of Mexico. CN transports more than \$250 billion worth of goods ranging from raw materials to finished products.

The railway is a key part of the efficient operation of the Canadian and U.S. economies. A one-week labour strike that occurred at CN in late 2019 highlighted the significant role the company plays in both countries.

Population growth and business expansion in Canada and abroad help drive higher demand for CN's services. The company spends significant funds every year on capital projects to ensure it meets customers' needs while operating in an efficient manner. In 2019, CN spent roughly \$4 billion.

The company generates strong free cash flow to support large dividend increases and share buybacks. The compound annual dividend-growth rate over the past 20 years is about 16%.

Long-term investors have watched their investments balloon into significant wealth. A \$10,000 investment in CN 25 years ago would be worth \$415,000 today with the dividends reinvested.

## The bottom line

There is no guarantee CN will generate the same results in the next 25 years, but the stock remains an attractive pick for a diversified TFSA pension fund.

The TSX Index is home to several top companies that have helped Canadian savers grow their investment portfolios into significant personal retirement holdings.

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