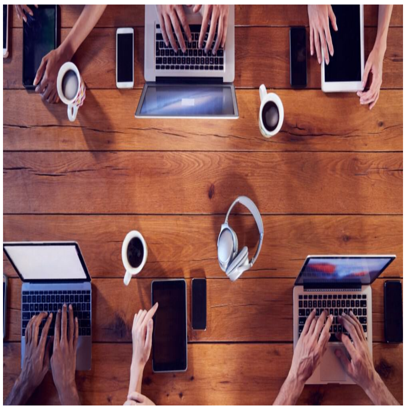

TFSA Wealth 101: How Young Investors Can Turn $20,000 Into $400,000 in 20 Years

Description

The correction in the stock market is giving investors and opportunity to buy top-quality dividend stocks are cheap prices.

Buying during a market crash takes courage, and there is a chance the stock price will go even lower after adding the company to the portfolio.

However, history suggests that picking up the stocks of companies that are leaders in their respective industries when the share prices fall significantly can result in big gains over the long haul.

Let's take a look at two top Canadian dividend-growth stocks that have made long-term investors rich and might be attractive picks right now for a Tax-Free Savings Account (TFSA) pension portfolio.

CN

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is trading at $115 per share at the time of writing. It was recently as low as $112, albeit still down from the $127 high it hit in February.

CN plays a key role in the smooth operation of the Canadian and U.S. economies transporting $250 billion of goods every year. The company carries cars, timber, coal, crude oil, grain, fertilizer, and finished products.

CN is unique in the industry with its rail lines that connect three coasts, giving it a competitive edge that's unlikely to change anytime soon. Building new tracks along the same routes is nearly impossible and mergers in the rail industry tend to hit regulatory roadblocks.

CN is very profitable and does a good job of sharing the earnings with investors. While the dividend yield might be low, CN's compound annual dividend growth rate is about 16% since the company went public 24 years ago.

Long-term investors have enjoyed great gains, and buying on dips has certainly paid off with strong returns. A $10,000 investment in CN just 20 years ago would be worth $270,000 today with the dividends reinvested.

Royal Bank

Royal Bank of Canada (TSX:RY)(NYSE:RY) is trading at $98 per share compared to $109 just a few weeks ago.

The bank is a giant in the Canadian and global banking industry. Royal Bank reported net income of $3.5 billion for fiscal Q1 2020 for a gain of $337 million, or 11% compared to the same period last year.

Despite headwinds from falling interest rates, Royal Bank continues to generate profitability levels that would be the envy of most of its peers. Return on equity was 17.6% in the quarter. The average for American banks is about 12% and European banks are in the 6-8% range.

Royal Bank has a balanced revenue stream coming from various segments, as well as many regions around the planet. In total, Royal Bank has operations in 36 countries and has 84,000 employees serving 17 million clients.

The bank has raised the dividend by a compound annual rate of 7% over the past decade. The current payout should be very safe and provides a yield of 4.4%.

Royal Bank is trading at less than 11 times trailing 12-month earnings. While that’s not a fire sale quite yet, it’s definitely a reasonable price to pay for one of the planet’s top financial institutions.

A $10,000 investment in Royal Bank 20 years ago would be worth $130,000 today with the dividends reinvested.

The bottom line

A $20,000 investment split between CN and Royal Bank 20 years ago would be worth $400,000 today if the dividends were used to buy new shares.

While there’s no guarantee the two companies will deliver the same returns over the next two decades, CN and Royal Bank are leaders in their industries and should be solid buy-and-hold picks for a TFSA pension fund.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)
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