TFSA 101: How Millennial Investors Can Retire Wealthy

Description

The 2020 market crash is frightening, but it could also be the investing opportunity of a lifetime.

In a matter of weeks, the **TSX Index** plunged more than 35%. Even after a recent rebound, the market is still down nearly 25%. The drop in portfolio values is scary, but history suggests the market will recover, and investors who start positions during the crash could realize significant gains over the long run.

TFSA advantage

Young investors have the benefit of time to help them build a retirement fund, and the TFSA is a great vehicle to set cash aside for the golden years.

All income created inside the TFSA is protected from the CRA. The full value of dividends can be invested in new shares to take advantage of the power of compounding. Down the road, when the time comes to spend the money, all capital gains are yours to keep.

Top stocks to help you retire rich

The best stocks to buy tend to be industry leaders with wide competitive moats. These companies have demonstrated years of growing revenue and earnings and produce solid free cash flow to support rising dividends. In addition, they provide essential services or products for the economy.

Let's take a look at one top Canadian dividend stock that has delivered strong returns and should continue to be an attractive pick for a TFSA retirement fund.

CN

Canadian National Railway (TSX:CNR)(NYSE:CNI) is a leader in the North American rail industry.

The company operates a unique network that connects ports on three coasts. This gives CN an advantage when domestic and international clients want flexibility to move goods to and from the Atlantic or Pacific coasts in Canada and the Gulf of Mexico.

In total, CN transports about $250 billion in cargo annually. The company is an essential part of the smooth operation of the Canadian and U.S. economies.

The stock traded as high as $127 per share in 2020 and fell as low as $92 during the worst part of the crash in March. Bargain hunters emerged at that point, and CN is slowly climbing back. At the time of writing, the stock price is $112 per share. The modest decline compared to many other stocks is a sign that investors see strong long-term value in the company.

CN invests heavily to make sure it has the capacity to meet rising demand for its services. Last year, the company spent nearly $4 billion on capital initiatives, including new locomotives, additional rail cars, and network upgrades. CN still had adequate cash left over to pay investors a nice dividend and buy back shares.

The board raised the payout by 7% for 2020 and has a compound annual dividend-growth rate of 16% since the company's IPO nearly 25 years ago.

Returns

CN has proven to be an attractive buy when the stock market corrects. Long-term investors have enjoyed solid returns. In fact, a $10,000 investment in the stock just 20 years ago would be worth more than $240,000 today with the dividends reinvested.

The bottom line

There is no guarantee CN will generate the same results in the coming two decades, but the stock remains an attractive pick for a TFSA retirement portfolio.

Buying top stocks during a market crash can boost long-term returns. Patient investors who use dividends to acquire new shares can see relatively modest initial investments turn in to substantial holdings. Some people even retire rich.

CATEGORY

1. Dividend Stocks
2. Investing

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