Retire Wealthy: How TFSA Investors Can Turn $6,000 Into $125,000 in 20 Years

Description

Successful long-term investors know that buying top-quality stocks during market corrections can pay off with large returns over time.

TFSA pension

Canadians are taking advantage of the Tax-Free Savings Account (TFSA) to set aside cash for their golden years.

In the past, people relied on generous company pensions to cover retirement expenses. Today, contract work and self-employment are more common, which means individuals are increasingly responsible for setting up their personal pension plans.

The TFSA offers interesting advantages for Canadian savers. All income generated inside the account is protected from the CRA, which means the full value of dividends can be invested in new shares and any capital gains that accrue in the account are yours to keep. That's right, when the time comes to spend the money, the CRA does not tax the withdrawal.

Since its inception in 2009, the TFSA's cumulative contribution space has grown to $69,500. The amount increased by $6,000 in 2020.

Where to invest?

The companies with the best track records of generating strong returns tend to be industry leaders. These businesses normally play essential roles in the economy and enjoy sustainable competitive advantages.

Top stocks also pay reliable and growing dividends supported by higher revenue. Steady free cash flow should covers the payouts, as well as investments in capital projects.

Let’s take a look at one top Canadian stock that has delivered great returns and appears attractive today to start a TFSA retirement fund.

CN

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is the only rail company in North America that operates tracks connecting ports on three coasts, giving the firm an advantage when securing business with domestic and international clients.

The odds are slim that new tracks would be built by a competitor along the same routes. In addition, efforts to merge rail companies tend to hit regulatory roadblocks.

CN generates income in Canada and the United States. The company is effectively the backbone of the economies of the two countries, transporting $250 billion worth of goods annually. Forestry products, cars, coal, crude oil, grain, fertilizer, and finished good all move across CN’s network.

The company is very profitable. Earnings grow in step with the expansion of the economy and CN generates adequate free cash flow to cover capital investment and dividends. The compound annual dividend growth rate since the company went public is about 16%. Surplus cash is used to buy back shares.

CN competes with trucking companies and other rail firms on some routes, so management works hard to ensure the business operates efficiently. CN invested nearly $4 billion in new locomotives, rail cars, network upgrades, and new technology last year.

The stock price reached a high of $127 in February and hit a closing low near $96 in March, albeit has moved higher in recent weeks. At the time of writing, CN trades for $107 per share.

Returns?

Long-term owners of the stock are happy investors, and a quick look at CN’s chart suggests buying on dips is profitable over time.

In fact, a $6,000 investment in CN just 20 years ago would be worth about $125,000 today with the dividends reinvested.

The bottom line

While CN might not generate the same results over the next two decades, the stock should be a solid anchor for a TFSA pension fund.

The **TSX Index** is home to many top-quality stocks that appear oversold right now and would be strong candidates for a self-directed TFSA retirement portfolio.

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2. Investing

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