TFSA Investors: Got $6,000? Buy This 1 Dividend Stock

Description

The most successful investors out there know and understand that buying shares of high-quality stocks during market corrections can result in incredible payoffs. You can see colossal returns over time if you utilize the situation intelligently.

The COVID-19 pandemic has led to the shares of many high-value companies trading at attractive prices right now. If you use this opportunity to invest in the right assets, you can end up becoming much wealthier down the line.

Tax-Free Savings Account pension

The Tax-Free Savings Account (TFSA) has been around since 2009. It is the ideal tool for a variety of both short- and long-term financial goals for Canadians. One of the best uses for it is as a means to create a secondary pension that you can enjoy during your golden years.

People relied on company pensions to cover their retirement costs. Today, the trend is veering more towards contractual work and self-employment. It means individuals are becoming more responsible for setting up their personal pension plans themselves.

The TFSA is an incredible vehicle to support such a plan for Canadians looking to create a pension for themselves. Any income generated within the TFSA is free from the clutches of the Canada Revenue Agency (CRA). It means you can fully enjoy the dividends and capital gains from shares without the need to pay income tax on the wealth you accrue in the account.

You also don't need to pay any fees or charges for withdrawing your money from the TFSA. The TFSA has a limited contribution room that keeps increasing each year. The 2020 update added $6,000 to the contribution room to take the maximum amount to $69,500.

How to use the additional $6,000

You should consider looking for assets you can rely on for the bigger picture to maximize the benefits you can get from your TFSA. It is best if you search for shares of companies with long-standing track records of generating substantial returns over several years.

You should look for companies that play a vital role in the economy — something that has been around for a while and will likely stay for the long-term future.

The top stock should have a history of paying reliable and growing dividends supported by substantial revenue. The underlying company should have the adequate cash flow to support steady payouts as well as investments in growth projects.

To this end, there is one stock that fits the bill for a long-term asset — one that you can store in your TFSA for the long run: **Canadian National Railway** (TSX:CNR)(NYSE:CNI).

Massive railway network

The Canadian National Railway is the only railway operator in North America with a network that spans across the continent and connects ports on three coasts. The company has a distinct advantage over any would-be competitors when it comes to securing business with international and domestic clients.

CNR has the most extensive railway network. Creating such a network will require decades and plenty of capital. It is safe to say that it's unlikely that any competitor can create an extensive network like CNR. Merging several railway networks will likely see regulatory roadblocks.

CNR has long been in a league of its own. It generates income through business in both the United States and Canada. The company is essentially the backbone of both economies. Transporting over $250 billion worth of freight across the continent each year, it's undoubtedly an essential business.

The company transports goods crucial to various industries, including cars, coal, fertilizer, finished products, and grain.

It's a profitable company that keeps growing as the economy improves, generating more than enough free cash flow to cover its capital investment and dividends. The compound annual growth rate (CAGR) for CNR since going public is an astounding 16%. It uses any cash left over to buy back shares.

At writing, the stock is trading for $109.93 per share. It is down 13.85% from its February 2020 peak since the onset of the COVID-19 pandemic. At the current share price, it's paying its shareholders at a decent 2.09% dividend yield.

Foolish takeaway

CNR is arguably one of the best companies in which to invest, with the $6,000 additional contribution room in your TFSA. To put things into perspective, a $6,000 investment in the company 20 years ago would be worth $125,000 today if you reinvested all the dividends.

The shares of the stock are likely to climb back up to exhibit substantial capital gains as the economy finds its footing again.

It could therefore be worth your while to invest in the stock for tax-free gains and dividend income from CNR in your TFSA.

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Author
adamothman