Market Crash Investing: How to Turn a $6,000 TFSA Into $135,000 in 20 Years

Description

The 2020 market crash could be the best opportunity in a generation for TFSA investors to build a dividend-focused retirement portfolio holding top Canadian stocks.

TFSA investing

Canadian TFSA investors want to take advantage of the 2020 market crash to buy top-quality stocks for their self-directed retirement portfolios. The TFSA contribution limit increased by $6,000 in 2020. The cumulative available space is now up to $69,500.

Buying stocks during a market correction requires courage, as most people are selling or sitting on the sidelines. However, the 30% bounce in the **TSX Index** that already occurred off the March 23rd low is evidence of the gains investors can achieve by taking advantage of a market crash.

Volatility should be expected in the near term, and a retest of the 2020 low is certainly possible. Nonetheless, history suggest that buying top companies during a downturn can deliver strong results over time. This is particularly the case when dividends are invested in new shares to harness the power of compounding.

The advantage of the TFSA is that all gains are yours to keep. That's right; the CRA can't tax dividends or capital gains that investments generate inside the account. This is different from RRSP holdings, where tax is paid on withdrawals.

Which stocks should you buy?

The best stocks tend to be companies that provided essential products or services to the economy. In addition, they often have sustainable competitive advantages in their industries. As a result, these businesses see revenue grow, as the economy expands and the top performers use profits to invest in the business while also giving shareholders steady dividend payouts.

Let's take a look at one top Canadian dividend stock that has delivered great long-term results and should be an attractive TFSA pick right now.

CN

Canadian National Railway (TSX:CNR)(NYSE:CNI) has a compound annual dividend-growth rate of about 16% since the company went public in late 1995. That's one of the best performances in the TSX Index over the past 25 years.

Analysts often cite CN as the best-managed railway company in North America. The business plays a key role in the effective operations of the Canadian and U.S. economies, moving about $250 billion in cargo annually. CN's business units cover a wide array of segments. The company transports oil, coal, grain, fertilizer, lumber, auto parts, and finished goods. Its unique network connects ports on three coasts, giving domestic and international customers access to essential markets.

CN invested nearly $4 billion in 2019 on network upgrades, new locomotives, additional rail cars, and technology. It still had ample free cash flow to buy back shares and pay its dividend. The stock currently provides a yield of 2%.

At the time of writing, the share price is $115. That's up from the March low around $96 but still well off the 2020 high above $127.

Long-term investors have enjoyed strong returns. A $6,000 investment in CN 20 years ago would be worth more than $135,000 today with the dividends reinvested.

The bottom line

Buying top stocks during market corrections can boost long-term returns, and the strategy of using dividends to acquire new shares is a proven one. CN might not generate the same results over the next 20 years, but the stock appears attractive today and should be on your radar for dividend-focused TFSA retirement fund.

The TSX Index is home to many top-quality companies that look cheap right now for a self-directed TFSA pension portfolio.

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