Millennials: How to Turn a $20,000 TFSA Into $450,000 by 2040

Description

The COVID-19 pandemic continues to wreak havoc on global economies. While the V-shaped recovery in equity markets has surprised investors and analysts, there might very well be a market crash on the horizon. But a volatile and beaten-down market also provides an opportunity for investors to buy quality stocks at a lower valuation.

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A market crash can also help you accelerate your retirement as blue-chip companies generate significant wealth over the long term. Yes, investing in the stock market is relatively a riskier proposition due to short-term volatility. However, equity investing also provides a much higher return than bond markets where interest rates are near record lows and require far less capital compared to real estate investments.

Long-term investors need to identify quality dividend-paying stocks, where they can reinvest these distributions and benefit from the power of compounding. For this, you need to be disciplined and patient and let your investment grow through economic cycles.

Canadians can allocate quality stocks such as **Canadian National Railway** (TSX:CNR)(NYXE:CNI) to their Tax-Free Savings Account (TFSA). Blue-chips stocks such as CN are industry leaders and have stellar track records of consistently rising profits and dividend growth.

Two decades back, CNR stock was trading at $7.8 per share, while its stock price stands at $132 as of July 29, 2020. If you would have invested $20,000 in CN stock 20 years back, it would have ballooned to a massive $450,000 after accounting for dividend reinvestments.

This Canadian giant is ideal for your TFSA

You can grow your wealth over time as we have seen above. Further, while TFSA contributions are not tax deductible, any withdrawals in the form of dividends or capital gains are exempt from taxes. This makes the TFSA an ideal account to allocate dividend-paying stocks such as Canadian National Railway. The TFSA contribution room for 2020 is $6,000, while the cumulative contribution roomstands at $69,500.

There is no guarantee that Canadian National Railway will deliver the same performance over the upcoming two decades. However, the company remains critical to the Canadian economy and remains a top bet even today.

CN is a transportation giant and the only transcontinental railway in North America. Its 19,600-mile network connects three coasts that include the Atlantic, the Pacific, and the Gulf of Mexico and spans across Canada and Mid-America.

It offers fully integrated rail and transportation services such as intermodal, trucking, warehousing, distribution, and freight forwarding.

In the second quarter of 2020, which has been one of the worst in recent memory, Canadian National Railway saw its adjusted earnings per share fall by 26% year over year due to a 19% fall in revenue.

However, the company has been improving liquidity by selling non-core assets and lowering costs. In Q2, CN's operating ratio rose 290 basis points to 60.4% while free cash flow doubled to $1 billion.

The company will permanently close underutilized rail yards, and it is focusing on optimizing train configuration and schedules.

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The Foolish takeaway

In the last 12 months, CNR has been impacted by union strikes, rail blockades, the ongoing pandemic, and a sluggish Canadian economy. However, given the company's enviable ability to generate consistent profits and its huge presence in North America, you can bet on CN stock in the upcoming decade and beyond.

CATEGORY

1. Coronavirus
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