Millennials: TFSA Top Picks for Passive Income That the CRA Won’t Tax

Description

The Tax-Free Savings Account (TFSA) is a powerful tool that young Canadians should be taking full advantage of to leverage the profound but difficult-to-fathom power of tax-free compounding over the long term.

Many millennials have been dealt a tough hand when it comes to retirement prospects, with many in the cohort unlikely to have an employer-sponsored pension. To make matters worse, certain millennials may need to open up their wallets down the line to look after their ageing Baby Boomers and Gen X’er parents, as they enter the latter stages of their retirements. It’s a tough situation to be in, but through sound investments held in a TFSA, it is possible to get ahead in spite of the horrid hand dealt to many of today’s young Canadians who’ve been dealt with two crises in just over 12 years.

TFSA: When you take CRA investment taxes out of the equation, the effects of compounding become amplified

When you take the insidious effects of capital gains and investment income taxes from the CRA (Canada Revenue Agency) out of the equation, today’s young investors can not only put themselves to do as well as their Boomer parents did back in the glory days of the 80s and 90s, a time when it was easy to get rich by holding stocks and bonds, but they can achieve far better results.

Sure, an early, comfortable retirement lifestyle seems far-fetched to millennials today amid yet another economic crisis. However, when you do the math, you’ll discover that ambitious retirement goals aren’t just a pipedream; it’s more of an inevitability for those who stick with their long-term TFSA plans.

Millennials may not be swimming in wealth, but they still have time and their side. And that’s arguably the greatest advantage that a TFSA investor could have in the world of investments.

Millennials with the discipline to contribute regularly to their TFSAs (the full $6,000 annual contribution amount) as soon as they’re able, while using the proceeds to invest in common shares of wonderful businesses systematically, will be headed for a very prosperous retirement down the road, with enough disposable income to help cover the high costs of care for their ageing Baby Boomer parents.

It's vital to start investing in one's TFSA as soon as humanly possible, though. As every year that goes by, the powers of long-term compounding are diminished by a considerable amount. With a 90% effective COVID-19 vaccine that could be ready to go early next year, now is as good a time as any to look to high-quality, blue-chip stocks to get your TFSA portfolio on the right track.

TFSA picks for millennial investors

Millennials can afford to take risks with their investments while they're still young. But they don't have to in order to achieve a rich retirement over the next three decades. To achieve a rich retirement, all one has to do is invest in proven TSX beaters like **Fortis** or **CN Rail**.

Fortis may have a reputation for being a boring Boomer stock, but it's more of an investment that every Canadian should own as a part of their TFSA foundation. The defensive dividend stock sports a 3.7% dividend yield at the time of writing. And it's positioned to grow at a 5-6% rate every single year, regardless of what ends up happening to the world economy or what other crises will be in store between now and the time you're ready to hang up the skates from the labour force.

Foolish takeaway

The moats of both Fortis and CN Rail are so wide such that both names are less volatile (and more profitable) than the **TSX Index**. Compared to most other securities, you're getting far less potential for surprises. And for TFSA investors looking to reduce their urge to time the market, the following names are typically solid buys at market prices for those with multi-decade time horizons.

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