



Got \$4,000 to Invest in Your TFSA? Here's How it Can Become \$97,000

Description

Canadian savers use the TFSA to put cash aside for a number of financial goals.

TFSA advantages

Retirees use the TFSA to create steady revenue streams that won't bump them into a higher tax bracket or put their [OAS pensions](#) at risk of a clawback.

Younger investors take advantage of the power of compounding to reinvest dividends. This strategy requires discipline and patience, but it can turn small initial investments into a substantial fund for retirement. In the event you don't need the TFSA money to complement pension income, the cash can go towards the purchase of a vacation property or another investment.

The great thing about the TFSA is the fact that all interest, dividends, and capital gains remain beyond the reach of the Canada Revenue Agency. This means a retirement fund that grows significantly over time doesn't get taxed when you decide to pull the money.

That's not the case with RRSPs. Contributions to the [RRSP](#) reduce taxable income, but you pay tax on the eventual withdrawals.

Best stocks to build TFSA wealth

The buy-and-hold strategy works well with [top dividend stocks](#) that raise their distributions every year. Companies that provide essential services and enjoy sustainable competitive advantages tend to outperform.

Let's take a look at **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) to see why it might be an interesting pick for a TFSA retirement fund.

CN stock

CN is one of those stocks people simply buy and forget for decades. The company is a leader in the North American rail industry and is the only company in the sector that has lines connecting ports on three coasts. This gives it an advantage when contracting with clients for intermodal and other transport services.

CN invests significant cash to ensure it has the engines, rail cars, and network infrastructure needed to meet rising demand for its services. The company spent nearly \$4 billion last year alone on equipment and upgrades to lines and hubs.

Despite the large capital requirements, CN still generates healthy free cash flow to support rising dividends. This is great news for TFSA investors. In fact, the company raised the distribution by a compound annual rate of about 15% since going public in the 1990s. That's one of the best dividend-growth stories on the **TSX Index** over the past two decades.

As the Canadian and U.S. economies continue to grow, CN's revenue stream should increase in step. The company is also a major player in getting products that are mined or made in North America to buyers around the world. In essence, CN serves a vital role to ensure the regional and global economies function smoothly.

Long-term investors have enjoyed impressive returns on CN stock holdings. A \$4,000 investment in CN just 20 years ago would be worth more than \$97,000 today with the dividends reinvested. Bill Gates owns more than 14% of the outstanding CN shares.

The bottom line on TFSA investing

The TFSA is a useful tool for investors at all stages of their working lives. A balanced portfolio is always recommended, and CN is just one of many top dividend stocks in the **TSX Index** that deserve to be on your radar for a TFSA investment fund.

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