Top TFSA Pick: 1 Great Canadian Stock With a Growing Dividend

Description

If you've yet to contribute to your 2021 Tax-Free Savings Account (TFSA) contribution, now is as good a time as any if you've got an extra $6,000 to put to work.

Despite being categorized as a savings account, the best use of your TFSA is not as a mere place to stash your savings to shield near-negligible amounts of interest from the Canada Revenue Agency (CRA). The TFSA shines most when you use the proceeds to invest in so-called "risky" securities like equities, REITs, income funds, or commodity ETFs so that you'll be able actually to grow your wealth over time.

In an era of rock-bottom interest rates and an unprecedented magnitude of fiscal and monetary stimulus, the case for hoarding excessive amounts of cash and fixed-income securities in your TFSA has never been weaker.

Use excess TFSA savings to invest in shares of wonderful businesses

With central banks around the world likely to keep interest rates lower for longer (the Bank of Canada may even cut already low rates farther), even if inflation creeps above the 2% target, investors could witness inflation rearing its ugly head again after remaining tame for years. As such, I believe the riskiest move an investor can make in this kind of pandemic-plagued market is to go all-in on cash, even with equities at the higher end of the valuation range.

As you've probably heard ad nauseam from the talking heads on TV, equities, as opposed to cash, may be the only game in town for those who want to grow their nest eggs and not see them erode away through the insidious effects of inflation.

This piece will look at two Canadian dividend growth stocks that you should look to buy with your next TFSA contribution. Each name is modestly valued in this expensive market and is a great way to stay ahead of the game, as savers stand to lose ground from a potential unchecked uptick in the rate of inflation through 2021 and beyond.

All aboard the profit train?

Consider **CN Rail** (TSX:CNR)(NYSE:CNI), a cheap dividend growth heavyweight that I'm continuing to accumulating in this pandemic-plagued environment to achieve above-average dividend growth over the decades for my TFSA.

CN Rail won't make you rich overnight like some of those "sexy" plays that have been bid up in recent months. What you will get from the Steady Eddie railway is above-average capital appreciation over time, solid dividend growth, and below-average downside come the next market meltdown.

While the rails are cyclical in nature, they tend to hold their own better than most other stocks when a crisis hits. With one of the widest moats on the planet, the rails can defend their share of economic profits and tend to be among the first of firms to come roaring out of the gate when the page is turned on the market cycle.

The rails are a solid core foundation for any long-term-focused TFSA. With a 2021 economic recovery within sight, investors would be wise to place their bets on CNR stock before its volumes surge higher and the company has a chance to pole-vault over analyst expectations that look a tad on the low side.

Foolish takeaway

CN Rail is known as North America's most efficient railway for a reason. While the company had a rough patch in 2020 due to the COVID-19 pandemic, there's tremendous room for improvement on the efficiency front versus its peers in the space.

If you're holding too much cash in your TFSA, consider adding to its foundation with CNR before the imminent economic recovery from one of those worst crises in recent memory.

Stay Foolish, my friends.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Stocks for Beginners

Date
2025/07/30
Date Created
2021/01/11
Author
joefrenette