TFSA Investors: How to Turn $6,000 Into $150,000 and Never Pay Tax

Description

The TFSA is a great tool to help Canadians build substantial savings for retirement.

How to use the TFSA to invest

default watermark

Sticking money in a GIC is safe, but the returns are terrible these days. In fact, the big banks offer less than 1% right now. That won't even keep up with inflation.

As a result, most investors are turning to stocks to help them boost returns on their hard-earned cash. The strategy of buying top stocks that pay dividends and using the distributions to acquire more shares is a proven one. RRSP investors used the approach for decades to create massive retirement portfolios. Since 2009, investors also have the TFSA as an investing option.

Inside the TFSA, all dividends remain tax-free, so the full value can be used to buy additional shares or parts of shares under a dividend-reinvestment plan (DRIP). The power of compounding takes some time to get going, but over the years the snowball effect can be significant.

When the time comes to spend the cash, all the capital gains are tax-free inside the TFSA. That means you can pocket all the money. This is different from the RRSP where you pay tax on withdrawals due to the reduction on taxable income when the initial RRSP contribution was made.

A top Canadian stock to own for decades

Canadian National Railway (TSX:CNR)(NYSE:CNI) is a great example of a top TFSA stock that steadily rewards investors with higher dividends and a rising stock price.

CN has a wide moat, which means it enjoys sustainable competitive advantages. This is important when seeking buy-and-hold stocks. The railway is an essential component of the Canadian and U.S. economic engines and is the only company in North America with tracks connecting three coasts. The odds of new competitive lines being built along the same routes are pretty much nil. Imagine the challenge of trying to get approvals to cross all that private land.

CN still competes with other rail carriers and trucks along some routes, so management has to ensure the business is up to the task of meeting customer demands. CN invests significant funds to upgrade locomotives, add rail cars, and improve infrastructure.

The network connects major cities across Canada and runs right through the heart of the United States to the Gulf coast.

This rail business is profitable in both good and bad economic times. CN generates steady free cash flow and has delivered compound annual dividend growth of about 16% since is went public in the mid 1990s. That’s key for buy-and-hold TFSA investors.

Billionaires know the value of investing in railway companies. Bill Gates owns about 14% of CN’s common stock and Warren Buffett’s company owns its own railway outright.

The numbers explain why these guys love rail stocks. A $6,000 investment in CN just 20 years ago would be worth about $150,000 today with the dividends reinvested!

The bottom line on TFSA investing

default watermark

A balanced portfolio is always recommended, and CN is just one top Canadian stock that deserves to be on your radar for a TFSA retirement fund. It takes patience and discipline, but investors can harness the power of compounding to build substantial wealth.

CATEGORY

1. Dividend Stocks
2. Investing

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. Dividend Stocks
2. Investing

Date
2025/08/24
Date Created
2021/01/20
Author
aswalker

default watermark

default watermark