1 Top Stock to Start a TFSA Pension

Description

Canadian investors are searching for top stocks to put in their TFSAs to start a self-directed pension.

TFSA or RRSP

The government created the TFSA in 2009 as a new vehicle to help Canadians save money. Since inception, the maximum cumulative contribution amount is now $75,500. That's large enough to create a solid personal pension fund.

In the past, most people put retirement savings into RRSPs. This is still a great idea, especially if you are in a high marginal tax bracket. Contributions to the RRSP reduce taxable income. The government gets its cut later when you remove the funds. With some careful retirement planning, investors should be able to pull the money out when they are in a lower marginal tax bracket than when they made the original contribution.

As such, investors in the early years of their careers might want to use TFSA space first and then put leftover cash into the RRSP. This would save some RRSP contribution room for down the road when earnings might be higher.

People with generous company pensions might also find that they use up their RRSP space quickly. Extra savings can then go into the TFSA.

Any interest, dividends, or capital gains earned on investments inside the TFSA are tax-free. That means investors can reinvest the full value of profits and don't have to worry about sharing capital gains with the CRA when the time comes to spend the money.

Best stocks for a TFSA pension

A balanced portfolio is always recommended. To get the fund started, it would make sense to look for stocks that have long histories of providing great returns through a combination of dividend growth and a rising stock price. Industry leaders that enjoy wide competitive moats tend to outperform over the long haul. Companies that provide essential products or services often stand out as top buys.

Canadian National Railway

Canadian National Railway (TSX:CNR)(NYSE:CNI) is trying to buy **Kansas City Southern** for US$30 billion plus another US$3.8 billion in debt.

If regulators approve the deal, CN will have a unique rail network that connects the Pacific and Atlantic coasts in Canada, the Gulf of Mexico in the United States, and lines running into Mexico. In the event the deal gets blocked, CN will simply remain a profit machine at smaller scale. The stock looks cheap after the recent pullback and buying dips has historically delivered strong returns.

In fact, long-term investors have enjoyed great success owning this stock in their retirement portfolios. A $10,000 investment in CN when it went public in the mid-1990s would be worth more than $400,000 today with the dividends reinvested. CN continues to invest billions of dollars each year in new rail cars, locomotives, and network upgrades to ensure it can meet growing demand for its services.

The bottom line on top TFSA stocks

The TFSA is a great tool for Canadians to build substantial self-directed portfolios to complement their company, government, and other pension income streams. If you are searching for a top TSX Index stock to get started, CN deserves to be on the buy list.

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