Millennials: 2 Top TSX Stocks to Buy Now for Your TFSA Pension Fund

Description

Investors in the early part of their careers are searching for top stocks to put inside their TFSA retirement fund.

TFSA advantage

The TFSA is popular with millennial investors who like the account for its flexibility and tax advantages. Money can be removed from the TFSA at any time without a tax penalty, and the value of the withdrawal gets added back as new contribution room in the following calendar year. This is helpful if a person needs cash for an emergency or for a property purchase.

Ideally, we would max out our TFSA and RRSP contributions each year, but most people don't have that much extra cash after paying the bills. Younger investors might decide to save RRSP room for later in their careers when the reduction in taxable income that comes from RRSP contribution has a higher impact. Generally, we earn more money as we get older and tend to move into higher marginal tax brackets.

Best stocks to buy for a TFSA pension

Retirement investments tend to be buy-and-hold picks, so it makes sense to focus on businesses that are industry leaders and have long track records of revenue and profit growth that support steady dividend increases. Let's take a look at **CN** (TSX:CNR)(NYSE:CNI) and **TD** (TSX:TD)(NYSE:TD) to see why they might be good picks to start a TFSA pension fund.

CN

CN just reported strong Q3 2021 results. The company has been in the news a lot this year after it tried to buy **Kansas City Southern**, a U.S. railway with routes connecting to Mexico, for US$30 billion plus debt. The deal fell through due to regulatory concerns and activist investors are pushing for change.

The CEO will now retire in early 2022, and CN is making adjustments that should benefit shareholders.

The company has restarted its share-buyback program and will limit capital expenditures to 17% of revenue through 2024. This should free up more cash for dividend hikes. CN is targeting free cash flow of at least $3 billion in 2021.

The share price is near its 12-month high, but this stock should drift steadily higher in the coming years, supported by economic growth in Canada and the United States.

TD

TD is Canada's second-largest bank by market capitalization. The company remains a profit machine, even during these challenging times. TD has strong retail banking operations in both Canada and the United States and should benefit from the anticipated economic recovery in 2022 and beyond.

The bank set aside billions of dollars to cover potential bas loans during the pandemic. Deferrals and government aid helped avoid the worst-case scenario, and TD now has excess cash to deploy. Investors should see a large dividend increase in 2022 when the government is expected to allow the banks to restart payout hikes. In addition, TD could use the cash hoard to make a strategic acquisition to boost growth.

The stock trades at a reasonable 10.5 times trailing 12-month earnings and offers a 3.55% dividend yield.

The bottom line on TFSA investing

CN and TD are top TSX stocks that have long track records of delivering attractive total returns for buy-and-hold investors. If you are searching for top stocks to start a self-directed TFSA pension fund, these companies deserve to be on your radar.

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