TFSA Investors: 1 Cheap TSX Stock to Start a Retirement Fund

Description

New TFSA investors are searching for top TSX stocks to build a self-directed retirement portfolio.

TFSA advantage

The government created the TFSA in 2009 as a new vehicle to help Canadians save cash to meet future goals. The cumulative contribution limit has since increased to $75,500. That's a decent amount for investors to build a self-directed retirement portfolio where all interest, dividends, and capital gains are tax-free.

The flexibility of the TFSA might make it a good choice for younger investors who are considering using a TFSA or RRSP to invest for their retirement. Ideally, a person would maximize the contribution limit on both each year, but most people don't have that much extra cash. The TFSA offers better flexibility to remove funds if needed for an emergency. Any amount taken out of the TFSA is added back as new contribution room in the following calendar year.

In addition, saving RRSP space for later in your career might be a good strategy. The RRSP contributions are used to reduce taxable income, so it makes sense to contribute when you are in a higher marginal tax bracket.

Top stocks to buy for a retirement portfolio

Retirement investments tend to be buy-and-hold positions. One popular strategy involves buying top dividend stocks and using the distributions to acquire new shares. This sets off a powerful compounding process that can turn small initial investments into large savings over the years.

Let's take a look at Manulife to see why it might be a good stock to buy now.

Manulife

Manulife (TSX:MFC)(NYSE:MFC) is a large Canadian insurance and wealth management company with operations in Canada, the United States, Europe, and Asia. The American business operates under the John Hancock brand.

Manulife reported solid Q3 2021 results, despite the ongoing COVID-19 challenges, particularly in Asia, where new lockdowns have occurred in recent months.

The board just raised the dividend by 18% for 2022, supported by strong performances across its business lines this year and expectations for steady growth in 2022 and beyond.

The company also just announced a deal that reduces risk for investors when stock markets fall, while unlocking significant capital that will be primarily used to buy back outstanding stock.

Manulife has entered an agreement to reinsure more than 75% of its legacy U.S. variable annuity business held by its John Hancock subsidiary. The block primarily includes policies with guaranteed minimum withdrawal benefits.

The deal releases $2 billion in capital and unlocks shareholder value. It also means Manulife has to set aside $1.3 billion less in funds to meet its capital requirements.

In short, the agreement materially reduces Manulife's risks when the stock market tanks. This is good news for buy-and-hold investors who are relying on a stable and growing dividend.

Manulife had to reduce its payout by 50% during the Great Recession largely due to losses sustained in the U.S. annuities group. Management has done a good job of removing risk from the business in the past few years, and this deal takes it one step further.

The bottom line on top TFSA stocks

Manulife's new dividend provides a 5.2% yield at the current share price near $25.50. The stock looks cheap right now at 7.5 times trailing 12-month earnings and should deliver attractive total returns in the coming years. If you are searching for a top stock to add to your TFSA retirement fund, Manulife deserves to be on your radar.

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