How to Turn a $50,000 TFSA Into a $650,000 Retirement Fund

Description

Canadian savers are using their Tax-Free Savings Accounts (TFSAs) to set aside cash to meet a number of financial goals, including a comfortable retirement.

The beauty of the TFSA is that it allows investors to protect all interest, dividends, and capital gains from the tax authorities. That has important implications for growing the fund as well as ensuring that you get to keep all the money when the time comes to cash out and spend the spoils.

Since inception, the TFSA limit has grown to $63,500, which means many Canadians could easily have a $25,000 or $50,000 balance today. That's a tidy sum and certainly enough to set you up for a substantial self-directed TFSA pension fund.

One strategy to build the portfolio involves buying top-quality dividend-growth stocks and investing the distribution in new shares. This sets off a compounding process that can steadily grow the fund without additional contributions and turn a reasonably small initial portfolio into a large nest egg.

Let's take a look at three stocks that might be interesting picks to build your TFSA today.

Royal Bank (TSX:RY)(NYSE:RY)

Royal Bank is Canada's largest company by market capitalization and continues to grow its revenue and earnings at a steady rate. The bank has successful groups operating in personal and commercial banking, capital markets, wealth management, insurance, and investor and treasury services.

Canada remains the largest contributor to the bottom line, but the bank invested US$5 billion in a major acquisition in the United States in recent years, and investors could see additional growth south of the border.

Royal Bank is targeting annual earnings increases of 7-10% over the medium term, and that should support ongoing dividend growth in the same range.

A $10,000 investment in Royal Bank 20 years ago would be worth about $100,000 today with the dividends reinvested.

Fortis (TSX:FTS)(NYSE:FTS)

Fortis is a North American utility player with $50 billion in assets. The company primarily owns power generation, electric transmission, and natural gas distribution businesses that operate in regulated environments. This is important for investors, as it means most of the revenue should be predictable, providing steady cash flow to cover dividend payments.

Fortis is spending more than $17 billion over the next five years to boost its rate base. This is expected to generate enough additional cash flow to drive annual dividend increases of about 6%. The company has raised the payout every year for more than four decades, so the guidance should be solid.

A $10,000 investment in Fortis 20 years ago would be worth close to $105,000 today with the dividends reinvested.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

CN plays an essential role in ensuring the Canadian and U.S. economies function efficiently. The company has tracks that connect to three coasts and transports everything from raw materials to finished goods. Management continues to invest in new locomotives and network upgrades and still has ample cash left over to reward investors with large dividend increases and share buybacks. In fact, the company just raised the dividend by 18% for 2019.

Long-term investors have done well with this stock. A $5,000 investment in CN two decades ago would be worth about $120,000 today with the dividends reinvested.

The bottom line

A $25,000 investment spread across these three stocks just 20 years ago would have grown to $325,000 today. A $50,000 initial portfolio would be worth $650,000!

There is no guarantee Royal Bank, Fortis, and CN will generate the same returns over the next two decades, but the strategy of buying top-quality dividend stocks and investing the distributions in new shares is a proven one.

The Canadian market also has a number of emerging players to consider when building a comfortable retirement portfolio.

CATEGORY

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TICKERS GLOBAL

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2. NYSE:FTS (Fortis Inc.)
3. NYSE:RY (Royal Bank of Canada)
4. TSX:CNR (Canadian National Railway Company)
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