Attention Millennial Couples: How to Turn a $100,000 TFSA into $1 Million

Description

Saving for the golden years might not be top of mind for young couples with so many other financial commitments to consider, but starting to plan early is the secret to hitting your retirement goals.

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One way to build a TFSA retirement fund involves owning top-quality dividend-growth stocks and using the distributions to buy additional shares. This takes advantage of a powerful compounding process that can turn relatively modest initial investments into a significant retirement fund over time.

Since its inception, the TFSA limit has grown to $63,500 per person for Canadian residents who were at least 18 years old in 2009. With a bit of discipline, a young professional couple could each set aside $50,000 for their retirement plan.

Let's take a look at two stocks that have helped investors grow their investments significantly in just 20 years.

Fortis (TSX:FTS)(NYSE:FTS)

Fortis is a utility company with power generation, electric transmission, and natural gas distribution assets located in Canada, the United States, and the Caribbean.

The business grows through strategic acquisitions and organic investments and management does a good job of sharing the success with investors.

The board has raised the dividend in each of the past 45 years and the current $17.3 billion capital program should drive enough cash flow growth over the next five years to support average annual dividend increase of 6%. The current payout provides a yield of 3.6%.

A $10,000 investment in Fortis 20 years ago would be worth more than $110,000 today with the dividends reinvested.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS)

Investors often skip Bank of Nova Scotia in favour of its two larger Canadian peers, but the bank has some compelling long-term growth potential that deserves a closer look.

Bank of Nova Scotia has invested billions of dollars to build a presence in Latin America with a specific focus on Mexico, Peru, Chile, and Colombia. The four countries are home to more than 200 million consumers and make up the Pacific Alliance trade bloc that enables the free movement of goods and capital among the member states.

The international operations are outperforming the Canadian business and now account for more than 30% of total profits. The current dividend provides a yield of 4.8% and should continue to grow at a steady rate.

A $10,000 investment in Bank of Nova Scotia 20 years ago would be worth more than $90,000 today with the dividends reinvested.

The bottom line

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Fortis and Bank of Nova Scotia are just two of the numerous Canadian companies that have generated substantial returns over the past two decades. A $100,000 portfolio split between these stock two decades ago would be worth $1 million today with the dividends reinvested.

There is no guarantee these stocks will generate the same returns over the next 20 years, but the strategy of owning top dividend-growth stocks and investing the distributions in new shares is a proven one to help young couples set aside funds for a comfortable retirement.

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