Attention Young TFSA Investors: 2 Stocks to Help You Retire a Millionaire

Description

A million-dollar retirement portfolio might appear out of reach for many young investors, but it is actually a realistic and achievable goal.

One way to build retirement wealth involves holding proven dividend-growth stocks inside a self-directed TFSA and using the distributions to acquire more shares. People have followed this strategy inside their RRSPs for decades, and that is still a popular option, especially for Canadians who are in the highest marginal tax brackets. The TFSA, however, might be a more attractive alternative for younger investors.

The maximum TFSA contribution limit is now up to $63,500, which is large enough for someone to build a significant portfolio of dividend stocks. All of the distributions and capital gains generated inside the TFSA are protected from the tax authorities. This means the final size of the portfolio doesn't have to be as large as it would within a RRSP where the funds are taxed when removed.

Let's take a look at two stocks that might be interesting picks for a retirement fund today.

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

Royal Bank is Canada's largest company by market capitalization and is a global heavyweight in the banking industry. Despite its massive size, the company continues to grow at an impressive rate.

Royal Bank reported adjusted net profits of $12.4 billion in fiscal 2018 and expects to generate medium-term earnings-per-share growth of at least 7% per year. That should support ongoing dividend increases at roughly the same rate. The current payout provides a yield of 3.9%.

Management is investing heavily in digital solutions to ensure the bank remains competitive in a rapidly changing environment and its customers are migrating to online banking at a steady rate. Disruption in the banking sector is expected to continue, but Royal Bank has the financial means to ensure it remains a leader.

A $5,000 investment in Royal Bank 20 years ago would be worth more than $55,000 today with the dividends reinvested.

Suncor (TSX:SU)(NYSE:SU)

Suncor is Canada's largest integrated energy company with production, refining, and retail businesses. The asset distribution all along the value chain provides Suncor and its investors with a built-in hedge against lower oil prices. This helped the company ride out the last oil crash, and Suncor actually took advantage of the downturn to acquire new assets at attractive prices.

The company has a long track record of dividend growth, and investors just received a 17% increase in the payout for 2019. At the time of writing, the dividend provides a yield of 3.25%.

The oil sector goes through ups and downs, but Suncor has proven to be a winner for long-term investors. A $5,000 investment in the stock 20 years ago would be worth more than $45,000 today with the dividends reinvested.

The bottom line

Royal Bank and Suncor should continue to be solid buy-and-hold picks to start a dividend-focused TFSA retirement fund. A Canadian couple with a combined investment of $100,000 split between these companies just 20 years ago would have a $1,000,000 today if all the dividends were invested in new shares.

Several other top Canadian companies in the TSX Index have generated similar or even better returns, so the strategy is a proven one for building long-term wealth.

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