Retire Early: How $25,000 Can Become $300,000 in Your TFSA in 20 Years

Description

We would all love to have the freedom to stop working and spend our time on other pursuits, such as charities, travel, exercise, or gardening.

To make the dream a reality we need to have enough cash set aside to cover our living expenses. Packing it in early, say, at age 50 or 55 would normally require a decent cash stash to carry us along until CPP, OAS, and company pensions can fill in the gap.

Let's say you expect to receive $1,000 per month from CPP and OAS at 65 and another $1,500 per month from your work pension. This would give one person $2,500 or a couple $5,000 per month to live on, which is reasonable for most people. If you want to retire at 55, you would need enough savings to cover the 10-year gap. To make the calculation simple, that would mean $30,000 per year per person, or a maximum fund of $300,000, assuming you are not getting any return on the portfolio, which wouldn't be the case.

How do you get there?

Life is expensive these days, so the prospect of saving enough to hit our early retirement goals might appear daunting, but there is hope. One way to build a substantial retirement fund would be to own quality dividend stocks inside a TFSA account and use the distributions to buy new shares.

Let's take a look at two stocks that have turned $25,000 into $300,000 in just two decades.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is North America's largest energy infrastructure company with a vast network of pipelines transporting essential oil, gas, and gas liquids from producers to their clients across Canada and throughout the United States.

The company also has extensive natural gas distribution operations that deliver natural gas to homes and businesses. The renewable energy group rounds out the company's businesses.

Enbridge is working through a transition that is focusing investment on regulated businesses. This is good news for investors, as these assets tend to produce reliable and predictable cash flow. Enbridge has also made good progress in its efforts to streamline its business structure.

The company raised the dividend by 10% in 2019 and intends to bump it up by 10% again next year. Investors who buy the stock right now can pick up a yield of 5.8%.

Long-term investors have done well with Enbridge. A $25,000 investment in the stock 20 years ago would be worth more than $300,000 today with the dividends reinvested.

Royal Bank of Canada

Royal Bank (TSX:RY)(NYSE:RY) recently reported solid results for fiscal Q2 2019. The company generated net income of $3.2 billion in the quarter, extending its track record of making $1 billion in profits per month. That's some serious coin, and while customers might think the bank should reduce its fees, investors are all smiles.

Royal Bank has a balanced revenue stream coming from personal and commercial banking, wealth management, capital markets, insurance, and investor and treasury services. It is a giant in the Canadian banking sector and has the financial capability to invest in new digital platforms to ensure it remains competitive in a rapidly changing industry.

Royal Bank's dividend provides a yield of 3.9%.

A $25,000 investment in the stock 20 years ago would also be worth more than $300,000 today with the dividends reinvested.

The bottom line

The TSX Index is home to many stocks that have delivered similar or even better returns over the past two decades. While there is no guarantee the same performance will be repeated, the strategy of owning top dividend stocks and investing the distributions in new shares is a proven one.

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Date
2025/06/29
Date Created
2019/05/29
Author
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