Young Investors: How to Snowball Your $15,000 TFSA Into a $120,000 Retirement Nest Egg

Description

People come across extra cash in a number of ways. It could be from a bonus at work, a gift from a relative, or the proceeds from the sale of the old boat that has been sitting in the back yard for the past five years.

Regardless of the source, the decision you make with the windfall can have a huge impact on your retirement.

One option is to buy dividend stocks inside your TFSA and use the distributions to acquire new shares. This sets off a compounding process that essentially acts like a snowball rolling down a hill. The larger it gets, the more snow it picks up, and the longer the run, the bigger the overall gain.

Let's take a look at two stocks that might be interesting picks for a TFSA retirement portfolio right now.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) reported solid results for fiscal Q2 2019. The bank earned adjusted net income of $1.52 billion, representing a 4% increase over the same period last year. Adjusted earnings per share rose 5% to $2.30.

Bank of Montreal's U.S. operations provided the best performance. Adjusted net income from the group rose by $58 million or 16% to $117 million. The company's presence in the United States dates back to the early 1980s when it bought Harris Bank. The division has since grown through additional acquisitions, and BMO Harris Bank now contributes 35% of total adjusted earnings.

This is important for investors who want exposure to the U.S. through a Canadian company. The American operations provide a nice hedge against any potential trouble in Canada and profits can get a boost when the U.S. dollar strengthens against the loonie.

Bank of Montreal just raised the quarterly dividend from $1.00 to $1.03 per share. That's good for a yield of 4%. The company has paid a dividend every year since 1829.

A $15,000 investment in Bank of Montreal 20 years ago would be worth $120,000 today with the dividends reinvested.

Suncor Energy

Suncor (TSX:SU)(NYSE:SU) is Canada's largest integrated energy company with assets spread out all along the value chain. Suncor is best known for its oil sands and offshore oil production, but the company also has four large refineries and more than 1,500 Petro Canada retail locations.

The downstream assets ensure the company has a steady revenue stream when oil prices hit a rough patch. Tough times are actually good for investors in the long run, as Suncor's strong balance sheet gives it the financial firepower needed to make strategic acquisitions when the rest of the sector is struggling. Eventually, commodity prices will improve, and investors benefit as a result.

Suncor isn't often cited as a dividend play, but the company has a strong track record of raising the payout. The board hiked the distribution by nearly 17% for 2019. Investors who buy the stock today can pick up a yield of 4%.

A $15,000 investment in Suncor two decades ago would also be worth more than $120,000 right now with the dividends reinvested.

The bottom line

Bank of Montreal and Suncor appear oversold after their recent pullbacks, providing investors with a chance to pick up the stocks at reasonable prices while getting paid well to wait for market sentiment to change.

These are just two of many top Canadian stocks that have generated similar or even better returns for investors over time and should continue to be attractive buy-and-hold picks.

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