Use Your TFSA to Turn a $10,000 Investment Into $100,000 Starting Today

Description

Investing through a tax-free savings account (TFSA) is one of the most effective means of maximizing the long-term returns on your capital. While many investors tend to shun stocks in favour of less volatile assets, a TFSA is an ideal vehicle in which to hold share market investments. In the early stages of investing as well as over the long term, a combination of regular contributions and the magic of compounding can boost your returns, thereby allowing you to achieve your goals sooner.

How does it work?

If you were to start a TFSA with a deposit of $10,000 and then invest $5,000 annually while generating a return of 3%, which is roughly the average rate paid on guaranteed investment certificates (GICs), it would take roughly 14 years to reach $100,000. While this demonstrates the power of compounding, there is a faster way to achieve that goal by doubling down on the power of compounding interest.

By investing in a high-quality blue chip Canadian Dividend Aristocrat, you can significantly speed up the process. Dividend Aristocrats are those stocks listed on the TSX with a market capitalization of greater than $300 million and have hiked their dividends for at least five consecutive years. One company that stands out for its long history of annual dividend increases, almost impenetrable economic moat and solid earnings growth, making it an ideal candidate for long-term investors seeking to build wealth is **Enbridge** (TSX:ENB)(NYSE:ENB).

For the last 23-years, the energy infrastructure and midstream services giant has hiked its dividend to now be yielding a very juicy 6%. By reinvesting those dividends, investors can maximize the power of compounding, boosting their return as ever higher dividends increase their buying power.

If an investor had bought Enbridge 10 years ago and reinvested every dividend paid, they would have generated a total return of almost 186%, or an annual average return of just over 11% compared to 173% and 10.6%, respectively if the dividends weren't reinvested. By using the initial $10,000 investment to purchase Enbridge stock and then investing the subsequent $5,000 annual contributions as well as reinvesting all dividends paid, the $100,000 goal can be achieved in around nine years.

Enbridge is a solid long-term investment

The energy infrastructure giant is the ideal candidate for long-term investors seeking a reliable source of income and capital growth because its earnings growth is virtually guaranteed.

You see, Enbridge possesses a wide almost insurmountable economic moat, which protects its earnings. This is enhanced by most of its revenue coming from contracted or regulated sources, making earnings highly dependable. The size of Enbridge's pipeline network means that it forms a vital link between the energy patch and crucial U.S. energy markets, which, along with the inelastic demand for oil and natural gas, means that demand for the use of its assets remains strong.

The potential for earnings growth is virtually boundless. Enbridge has $16 billion of projects under development that will come into service between 2019 and 2023, significantly expanding the capacity of its pipeline network. Its ability to boost earnings is enhanced by the oligopolistic characteristics of the energy infrastructure sector, thus allowing Enbridge to act as a price maker, rising demand because of growing production and steep barriers to entry that limit competition.

Putting it together for investors

This will not only sustain Enbridge's existing dividend, but also support further annual hikes with the midstream giant planning to grow its dividend by 5% to 7% annually after 2020. That makes it an ideal stock for long-term wealth creation, especially when the investment is held in a TFSA.

Capital gains and dividends earned in a TFSA are tax-free for life, removing one of the most significant hindrances to creating wealth that reduces the real return earned by investments. That's important to note, because at the end of the nine-year period, over 40% of the balance will be composed of accumulated capital gains and dividend payments.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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