How a Canadian Couple Can Turn $12,000 in TFSA Contributions Into $135,000

Description

Young Canadians are searching for ways to set aside cash for a number of long-term projects. This could be a retirement fund, a cottage, or sailboat to travel the world.

One popular strategy involves using TFSA contributions to buy dividend stocks and then allocate the distributions to acquire additional shares. The process takes advantage of the power of compounding to build the fund, and while it requires some patience before you see the impact, over the long run a reasonably small initial investment can grow to become a significant pile of cash.

All of the interest, dividends, or capital gains generated inside the TFSA are yours to keep. The TFSA also provides flexibility in the event an emergency comes up and you need to access the funds. There are no penalties for taking the money out and you don't lose the contribution space, meaning the funds can be replaced as long as you wait the required amount of time. These characteristics are attractive for all savers, but can be particularly helpful for younger investors.

Which stocks should you buy?

The companies that tend to generate the best returns are often market leaders with strong track records of dividend growth. Let's take a look at **Enbridge** (TSX:ENB)(NYSE:ENB) to see why it might be an interesting pick for a TFSA portfolio.

Regulated assets

Enbridge gets most of its revenue from regulated businesses, and the company's recent strategy shift should ensure this will continue in the future. Regulated assets tend to provide cash flow that is predictable and reliable, which is important for dividend investors.

The management team has already found buyers for about $8 billion in non-core assets that were identified as part of the strategic review. The proceeds are being used to strengthen the balance sheet and help finance the development program. Enbridge is working on $16 billion in projects that are self-funded.

Getting major pipeline projects approved is more challenging than it was in the past. The $9 billion Line 3 Replacement project continues to face opposition but should eventually be completed. Aside from that, Enbridge is a very large company and can grow through smaller tuck-in opportunities within the existing asset base or make additional strategic acquisitions.

Dividend growth

Enbridge raised its dividend by 10% in 2019 and another 10% increase is expected in 2020. Beyond that time frame, the company is targeting growth in distributable cash flow of at least 5% per year, and that should support ongoing dividend increases in the same range.

Returns

Buy-and-hold investors have done well with the stock. A couple who each invested $6,000 in Enbridge 20 years ago would have watched the $12,000 grow to more than $135,000 today with the dividends reinvested.

The bottom line

Enbridge is just one of several TSX Index dividend stocks that have generated solid returns for investors over the years and should continue to be attractive picks for a TFSA today.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/08/03
Date Created
2019/06/04
Author
aswalker