Young Investors: How to Turn a $10,000 Windfall Into $125,000 for Retirement

Description

Saving money isn't easy these days.

Housing, gas, food, and daycare costs pretty much wipe out the budget of most young investors who are trying to set aside some cash for retirement. Once in a while, however, we come across additional money that can be used to start a retirement portfolio.

The funds could come from a small inheritance, a gift from a family member, a bonus at work, or even a win on the weekly lottery ticket. Regardless of the source, the best use of the windfall might be to buy quality dividend stocks inside your RRSP or TFSA.

The best stocks to buy tend to be market leaders with strong track record of dividend growth supported by rising revenue and profits.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see why it might be a good pick for your self-directed pension portfolio.

Earnings

Royal Bank generated fiscal 2018 earnings of $12.4 billion and is on track to average $1 billion in profits per month again this year.

That's a staggering sum for most people to get their heads around, and you wouldn't think growth would be robust, but Royal Bank is targeting ongoing earnings-per-share increases of 7-10% per year over the medium term.

The company's strength lies in its size and its balanced revenue stream. Royal Bank is Canada's largest company with a market capitalization of $150 billion. This gives it the ability to compete with the largest global players and provides the company with the firepower to invest the required funds to stay relevant in rapidly changing banking sector.

The company has strong personal and commercial banking, wealth management, capital markets, investor and treasury services, and insurance groups. A US$5 billion acquisition made in the United States in late 2015 has worked out well and provides a solid platform for additional growth in the commercial and private banking segment south of the border.

Risk

On the risk side, Royal Bank has a large Canadian residential mortgage portfolio. In the event the housing market takes a nosedive, the bank could get hit. That said, things would have to get pretty bad before Royal Bank had any material losses. For the moment, a soft landing appears to be the most likely scenario; mortgage rates are falling, and unemployment is at its lowers level in decades.

The stock isn't as cheap as it was in December but still trades at a reasonable 12 times trailing earnings. Trying to time the dips is difficult and can result in missed dividends or a surprise surge in the share price. The current dividend provides a yield of 4%.

Long-term investors have done well with Royal Bank. A $10,000 investment in the stock 20 years ago would be worth about $125,000 today with the dividends reinvested.

The bottom line

A small amount of money invested in the right stocks can set you up for a comfortable retirement. Royal Bank is just one of a number of top TSX Index stocks that have delivered strong returns for buy-and-hold investors.

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