How This Banking Stock Can Help Your $6,000 TFSA Grow to $50,000

Description

Canadians are searching for ways to build up a self-directed savings portfolio that can help cover their living costs in the golden years.

In retirement, people will get payments from a number of sources. Most can count on OAS and CPP distributions, and many will have some form of a company pension. In addition, Canadians are encouraged to maximize RRSP and TFSA contribution limits to meet their savings goals.

The TFSA has become very popular since its inception in 2009. The current annual limit increase is $6,000, and Canadian residents have accumulated up to $63,500 in TFSA contribution room.

One option for taking advantage of the tax-free status of the TFSA is to buy quality dividend stocks and invest the distributions in new shares. Inside the TFSA, the full value of the dividends can be used to buy new shares. When the time comes to sell the stock and spend the money, any capital gains that have occurred are also tax free.

Which stocks should you buy?

The best companies tend to be industry leaders with strong track records of dividend growth supported by rising revenue and earnings.

Let’s take a look at **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) to see why it might be an interesting pick today for your TFSA retirement portfolio.

Earnings

TD generated $12 billion in profits in fiscal 2018. That’s $1 billion in earnings per month!

The company is a major player in the Canadian banking sector and is also a force in the United States, with retail banking operations stretching from Maine right down the east coast to Florida. The American business generates more than 30% of TD's total profits, and the division provides a nice hedge against any potential trouble in the Canadian economy.

Short sellers have taken aim at TD and the other Canadian banks in recent years in the belief that high personal debt levels due to large mortgage commitments in Canada pose a large default risk.

While it's true that TD has a big Canadian residential mortgage portfolio and a major crash in the housing market would be negative, TD is well capitalized, and its relatively low loan-to-value ratio on uninsured mortgages should mean that it can ride out a downturn without much of a problem.

Mortgage rates are falling and employment levels are strong, so there shouldn't be any big shock in the foreseeable future. Management is targeting earnings growth of at least 7% per year over the medium term.

TD has raised its dividend by a compound annual rate of about 11% over the past two decades. The current payout provides a yield of 3.8%.

A $6,000 investment in TD just 20 years ago would be worth about $50,000 today with the dividends reinvested.

The bottom line

TD should continue to be a solid buy-and-hold pick for a self-directed TFSA retirement portfolio. Other top **TSX Index** stocks are also worth considering today.

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