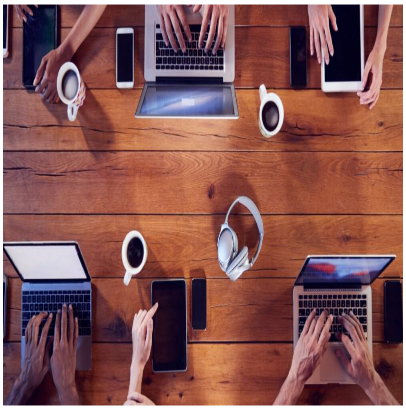

Millennial Investors: How to Turn a $36,000 TFSA Into a $475,000 Retirement Fund

Description

Planning for retirement isn't always the top priority for people with rent, daycare, and school debts to pay.

However, the earlier Canadian savers can start to set money aside for the golden years, the less upfront cash they will need to build a substantial fund to complement their other pension payments.

One proven strategy involves buying reliable dividend stocks and using the distributions to purchase additional shares. The process requires almost no management on the part of the investor, and over the course of 20 or 30 years can turn small initial amounts into large piles of cash.

The TFSA is an attractive vehicle for building the fund. All earnings and capital gains that are generated inside the TFSA are tax-free.

In addition, the funds can be accessed at any time in the event of a financial emergency. Hopefully, this won't happen, but it's good to have the flexibility.

Let's take a look at one stock that has made long-term investors quite rich and should continue to be an attractive investment for a retirement portfolio.

Royal Bank of Canada

Royal Bank of Canada (TSX:RY)(NYSE:RY) is a giant in the Canadian banking industry. In fact, the bank is Canada's largest company.

Size matters in this business, especially these days, when large investments in new technology are required in order to ensure that the bank has the digital platforms in place to compete for new clients.

Millennials, for example, are attractive potential customers and make up the largest demographic group in Canada. Young professionals are more comfortable managing their financial lives through their mobile phones and are demanding efficient digital services.

Royal Bank has a presence in several key sectors of the industry, with strong operations in personal and commercial banking, capital markets, wealth management, insurance, and investor and treasury services.

An expansion into the private and commercial banking segment in the United States in recent years has provided an avenue for growth in the large American market.

Royal Bank is very profitable, with a strong capital position that ensures the bank can ride out a potential downturn.

Management is forecasting annual earnings-per-share growth of 7-10%, which should support dividend growth. The existing payout provides a yield of 4%.

Royal Bank trades at a reasonable 12 times trailing earnings, and any dips in the stock should be viewed as opportunities to add to the position.

How to grow your savings

The TFSA limit currently increases by $6,000 per year, which means that a couple who starts today and can each set aside $500 per month would have a $36,000 fund in three years.

A $36,000 investment in Royal Bank just 20 years ago would be worth about $475,000 today with the dividends reinvested.

A number of other top Canadian stocks have generated similar or even better returns for buy-and-hold investors.

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