Beginner Investors: How to Safely Snowball Your TFSA Retirement Fund

Description

The TFSA is a powerful tool that can help today's young investors retire several years, if not decades earlier than the average retirement age of 65. While it's tempting for younger investors to splurge with paycheques received in their early years in the labour force, it's worth remembering that a dollar saved and invested within a TFSA today is worth a heck of a lot higher in 25 years from now thanks to the magic of tax-free compounding.

I'm not saying you should be a penny pincher and live a frugal lifestyle. If you've maxed out your TFSA like a smart saver, you only need to contribute an additional $6,000 every year and do as you wish with what remains. While it's tough for many young investors to meet the maximum allowable amount in a TFSA, it is undoubtedly doable over time for those willing to stick with the plan.

What should you do with the proceeds in your TFSA?

If you're under 40, forget about being in those "high-interest" TFSAs. While the certainty that comes with holding cash is desirable by new investors who are naturally risk-averse, the only certainty you'll get over the long term is that you will certainly lose purchasing power thanks to the insidious effects of inflation.

Those "high" TFSA interest rates at your local bank are not enough to grow your wealth for retirement. So, instead of worrying about how "risky" the market is, consider dipping a toe in the investment waters with defensive dividend stocks that will serve as an on-ramp for those who don't want to scare themselves out of the market.

In the initial stages of your investment career, it's all about making sure you don't set yourself up for a scenario where you'll make a rash decision at the worst possible time, sell your investments at a significant loss, call the markets a sham, and check out of the investing world forever.

What's the perfect starter stock to turn your TFSA into a growth engine over time?

Look no further than **Fortis** (TSX:FTS)(NYSE:FTS), a stock that's actually safer to own over prolonged periods of time (investment horizons beyond 10 years) than "risk-free" securities like bonds, GICs, cash, or cash equivalents.

Why?

Fortis is a business with highly regulated operations (and cash flows), leaving very little room for uncertainty or surprises. The company owns assets with sky-high barriers to entry, meaning virtually no (or very few) competitors can steal Fortis's business in its markets of interest.

What separates Fortis from the pack?

Utilities are a terrific asset class for investors who want growing dividends and minimal volatility. The utility business is recession-proof by nature, allowing investors to sleep at night when headlines cry recession.

What makes Fortis stand out from its peers is not just its high degree of regulated operations (higher regulation means greater certainty with regards to cash flows); it's the managers running the show and the above-average growth profile the company is able to achieve through smart moves in opportunistic markets.

Fortis owns some critical assets in the attractive U.S. market, allowing Fortis to virtually guarantee 5-6% in dividend growth every year. Now, U.S. assets come at a premium price tag, but thanks to the brilliant managers who've skated to the puck before most of its peers, Fortis is now in an open position to score big time for investors.

Moreover, Fortis's transmission line assets are about as stable as they come. The infrastructure is expensive to construct, but once it's up, it'll serve as an indefinite cash flow stream that's akin to an inflation-proof perpetuity.

For new investors wondering what to do with their TFSAs, Fortis is a "sleep easy" kind of stock that will do better than most other "riskier" growth stocks over the extremely long term. The 3.2% dividend yield may not seem like much, but hold the stock for 25 years, and it'll grow by enough to support a massive chunk of your retirement.

Stay hungry. Stay Foolish.

CATEGORY

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

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

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

Date
2025/07/03
Date Created
2019/09/06
Author
joefrenette