Pension Wealth 101: How to Turn $100,000 Into $1.4 Million

Description

Canadian savers of all ages are trying to set aside enough cash to ensure they can live a comfortable life in retirement.

Pension income can come from a number of sources, including a company pension, CPP, and OAS payments. Canadians are also encouraged to contribute to their RRSP and TFSA to set aside additional funds.

Self-directed investors now have many tools available to them to help make investing decisions. The internet has enabled people to use direct-trading platforms, often provided through the banks, and the wealth of information available online makes it easier to evaluate investing opportunities.

The main challenge lies in finding ways to grow savings over time.

In 2019, bond yields have fallen significantly, and it appears rate hikes are finished at the Bank of Canada. In fact, rate cuts are starting to appear more likely in the coming months and through 2020, especially after the United States just made its second cut for 2019.

Lower interest rates put pressure on the rates banks will offer on GICs. For example, investors were able to pick up a five-year GIC last fall with a 3.5% yield. The best offers today are just above 2%.

In this environment, investing in quality dividend stocks is an attractive option.

The best stocks to buy tend to be market leaders with strong track records of dividend growth supported by rising earnings.

Using the dividends to buy additional shares is recommended as a way to leverage the power of compounding. When this strategy is combined with the long-term increase in the share price, the impact on a modest retirement portfolio can be impressive.

Let's take a look at one example that might be a good pick to get you started.

Royal Bank

Royal Bank of Canada (TSX:RY)(NYSE:RY) is the country's largest company with a market capitalization of $154 billion.

The bank is a profit machine, generating earnings of $12.4 billion in fiscal 2018. That's more than $1 billion per month, and the company is on track to surpass the level again this year.

Royal Bank gets revenue from a blend of segments in the financial sector, including personal and commercial banking, capital markets, wealth management, and insurance.

The bank boosted its presence in the United States with a US$5 billion acquisition of California-based City National in late 2015, and additional deals could emerge in the coming years.

The company has a strong track record of raising the dividend in line with annual increases in earnings per share. The current payout provides a yield of 3.9% and should grow by 5-10% per year over in the medium term.

Royal Bank has a strong capital position with a CET1 ratio of 11.9% at the end of the most recent quarter. This is important, as it measures the bank's ability to ride out a financial crisis.

Management is investing heavily to build out robust digital banking solutions for customers to ensure the bank remains competitive in a changing environment where mobile banking is becoming more popular.

Long-term investors have done well with the stock. A $100,000 investment in Royal Bank just 20 years ago would be worth nearly $1.4 million today with the dividends reinvested.

The bottom line

Owning quality dividend stocks and using the distributions to buy additional shares is a proven strategy for building wealth for retirement.

Royal Bank is just one example of a top dividend stock that has helped investors create a comfortable nest egg for the golden years.

The **TSX Index** is home to several companies that have generated similar, or even better, returns. Even if you are getting a late start, it's possible to build a substantial retirement fund.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/08/02
Date Created
2019/09/19
Author
aswalker

PARTNER-FEEDS