Retirement Wealth: How to Turn a $20,000 TFSA into $200,000

Description

Self-directed investing is becoming more popular as Canadians take greater responsibility for their retirement planning.

Access to financial statements on company websites makes it easier to do your own research, and online brokerage accounts provide investors with a means to make investments quickly and at a low cost.

Another reason for the increase is changing employment trends. The days of getting a juicy defined-benefit pension from an employer are nearing their end, and many people who prefer the flexibility of contract work have no pension plan at all.

How should you invest for the future?

One strategy that has a proven track record involves buying dividend stocks and using the distributions to acquire more shares.

It takes patience and requires the discipline to leave the funds alone, but the long-term impact of the compounding effect can be significant.

Let’s look at one top stock that is a good example of how the strategy works.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a giant in the Canadian financial industry with a market capitalization of just under $140 billion.

TD has a great record of raising its dividend. The bank has hiked the payout by a compound annual rate of roughly 11% per year over the past two decades. The current dividend offers a yield of 3.9%. Ongoing increases in the distribution should be in line with anticipated earnings-per-share growth of7% to 10% per year over the medium term.

TD often beats it guidance.

The stock has done well for loyal holders of the shares. A $20,000 investment in TD just 20 years ago would be worth more than $200,000 today, with the dividends reinvested.

Is it a good bet going forward?

The company is investing heavily in digital initiatives to make sure it can compete with the rise of mobile payment competition from technology giants in the retail and social media segments.

Fears about a meltdown in the Canadian housing market have kept some investors away from the banks, but a drop in bond yields this year has resulted in lower mortgage rates, giving existing homeowners a chance to renew at rates that won't trigger a wave of defaults.

The Bank of Canada is expected to cut interest rates in the next year, following the two recent cuts that occurred in the U.S. This puts pressure on TD's net interest margins, but also spurs more mortgage sales and makes funding cheaper for businesses that want to borrow to expand their operations.

TD invested billions of dollars to build a large U.S. division over the past 15 years. The retail and brokerage operations south of the border help balance out the revenue stream and should drive long-term growth.

The bottom line

The strategy of owning quality dividend stocks and using the distributions to buy more shares is a popular one and can help Canadians build a nice wealth fund for retirement.

TD should continue to be a solid pick for a balanced portfolio, and is among the top stocks in the TSX Index that have generated great returns for buy-and-hold investors.

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3. Investing

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