Retire Rich: How to Turn $127,000 Into a $1 Million TFSA Wealth Fund

Description

Canadian savers of all ages are searching for ways to create a large TFSA pension fund to ensure they can enjoy a comfortable retirement.

The self-directed project is more important today than it might have been 30 years ago, as fewer companies are willing to give young people full-time jobs right out of school. When a person lands the ideal permanent position, the benefits rarely include a defined-benefit pension, which was more common in the past.

Canadians in the middle of their careers tend to be more flexible in their employment choices than their parents might have been. It is increasingly common for people to have several different careers in various industries throughout their working lives, including stints as businesses owners or contract workers. The flexibility can lead to more satisfaction with the work we do, but it often comes at the expense of a reduced pension or smaller pensions from multiple sources.

As a result, the need to build a self-directed retirement fund is more widespread.

The arrival of the TFSA in 2009 gave Canadians another savings vehicle to go with their RRSP. Each Canadian resident who was at least 18 years old at that time now has as much as $63,500 in TFSA contribution room. A couple would have $127,000 in space to invest in top dividend stocks.

All dividends earned inside the TFSA are tax-free, so you can roll the full value of the payouts into new shares. When the time comes to book the profits and cash out, all the gains go straight into your pocket.

Let’s take a look at one top stock that might be an interesting pick today to get your TFSA pension started.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has provided investors with great returns over the years, and that trend should continue for decades.

The company has strong retail banking operations in Canada and the United States that provide personal and commercial banking clients with loans, insurance, and investment products.

Wealth management is a large part of the bank's revenue stream and a flurry of deals in the sector in recent years suggests the big banks see significant opportunity in the segment. This would make sense as a massive wealth transfer is expected in Canada and the United States in the near future.

TD bumped up its wealth management operations last year when it acquired Saskatchewan-based Greystone Capital Management. Independent wealth firms of substantial size are becoming rare in Canada, but opportunities for takeovers exist south of the border. TD has established a significant U.S. business after a 15-year spending spree and now has the scale to compete with the leading U.S. banks in that market.

TD is a very profitable company and continues to generate strong earnings growth. The board has raised the dividend by a compound annual rate of 11% over the past two decades and ongoing dividend increases should be in line with expected earnings-per-share growth of 7-10% over the medium term.

The stock trades at a reasonable 12 times trailing earnings and provides a reliable 4% dividend yield.

A $127,000 investment in TD just two decades ago would be worth more than $1 million today with the dividends reinvested.

The bottom line

There is no guarantee that TD will deliver the same results over the next 20 years, but the stock remains an attractive pick for a balanced TFSA retirement portfolio and the strategy of owning great companies and investing the distributions in new shares is a proven one.

The TSX Index is home to several top stocks that have generated similar or even better returns. TD is just one that deserves to be on your TFSA radar today.

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