Wealthy Retirement: How to Turn a $10,000 TFSA Into $143,000

Description

Canadians are using the Tax-Free Savings Account (TFSA) to set aside cash as part of their retirement-planning program.

Although the TFSA has been around for a decade, many people are just figuring out that it can be a very useful tool for building a self-directed pension fund as well as for putting money aside for a rainy day.

Inside the TFSA, all income that is generated is protected from the tax authorities. The interest, dividends, and capital gains are yours to keep or reinvest.

This is important for dividend investors, as it means the full value of the distributions can be used to buy new shares. Over time, the compounding effect can turn relatively small initial sums into a large nest egg.

The best stocks to buy are normally industry leaders with growing dividends supported by rising revenue and higher profits.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see why it has proven to be a good long-term investment and should continue to be an attractive pick for a retirement portfolio.

Revenue stream

Royal Bank has a diversified revenue stream coming from a wide range of business segments in Canada, and around the world. The company is now Canada's most international bank and is so large that it is one of the few financial institutions in the world that are deemed to be too big to fail.

Royal Bank’s Canadian operations generate about 62% of the company’s revenue. On a segment basis, the personal and commercial banking activities are the most important, contributing half of total profits, but wealth management, capital markets, insurance, and investor and treasury services arealso part of the mix.

Royal Bank’s first big foray into the United States in the early 2000s didn’t go well, and the company booked a loss when it sold the business and exited the American retail banking sector. In 2015, however, Royal Bank saw an opportunity to enter the commercial and private banking segment in the U.S. and spent US$5 billion to buy California-based City National.

The timing proved to be fortuitous, and the division is performing well, contributing to the overall profits of the wealth management group.

Royal Bank’s adjusted earnings in fiscal 2018 came in at $12.4 billion. The bank is on schedule to top that performance in fiscal 2019.

Dividends

Royal Bank’s dividend payouts go all the way back to the late 1800s, and the bank continues to give investors a steady raise. The board increased the payout twice in 2019, and ongoing hikes should be in line with expected earnings-per-share increases of 7-10%.

Investors who buy the stock today can pick up a yield of 4%.

The stock trades at $106 per share, putting the price-to-earnings multiple at a reasonable 12.1 times trailing earnings. The share price dipped below $98 in August, but bargain hunters quickly moved in and have steadily pushed the stock back toward the highs of the year.

Dips have historically proven be good entry points, and investors should consider any pullbacks as opportunities to add to their positions.

A $10,000 investment in Royal Bank 20 years ago would be worth $143,000 today with the dividends reinvested.

The bottom line

Royal Bank should continue to be a solid pick for a diversified TFSA pension portfolio.

A number of other top stocks in the TSX Index are also attractive and have generated similar or better returns.

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aswalker