



Retire Rich: How Canadian Couples Can Turn a \$20,000 TFSA Into \$350,000

Description

Canadian families are trying to figure out how they can [retire](#) in comfort.

It's not easy amid the battle to cover housing payments, daycare costs, utility bills, and all those little surprise expenses that seem to come up each month.

Keeping our heads above water is tough enough, let alone dreaming of a wealthy retirement. However, many families still find a way to set aside a few dollars here and there to start building a nest egg.

In addition, a windfall from an inheritance, a gift, or as a result of selling the old boat that has been sitting in the back yard for the past five years can help get the ball rolling.

How to invest

One popular strategy to turn small investments into a sizeable retirement fund is to buy dividend stocks inside a TFSA and use the distributions to acquire more shares. The process doesn't take up too much time, and over the course of 20 or 30 years, you can end up with a substantial pile of savings.

As of 2019, the cumulative TFSA contribution limit per person is up to \$63,500.

Let's take a look at two companies that are good examples of how owning top dividend stocks can help investors retire in comfort.

Royal Bank

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) is the country's largest company by market capitalization. It also generates massive profits.

In fact, Royal Bank reported earnings of \$12.4 billion in the 2018 fiscal year. That's more than \$1 billion in profit per month!

Canadians often complain that bank fees are too high and all the service charges are unfair. One way to get some of that money back is to be a shareholder.

Royal Bank has a balanced revenue stream coming from personal and commercial banking, capital markets, insurance, and wealth management operations. It has a presence in many countries and is investing heavily in digital solutions to ensure it remains relevant in a rapidly changing industry.

The company has paid a dividend every year since the late 1800s and raises the payout on a regular basis. The current yield is 3.9%.

A \$10,000 investment in Royal Bank 20 years ago would be worth \$140,000 today with the dividends reinvested.

CN

Canadian National Railway ([TSX:CNR](#))([NYSE:CNI](#)) is a leader in the North American rail industry with tracks that touch both the Atlantic and Pacific coasts of Canada as well as the Gulf of Mexico in the United States.

The company plays an integral role in the functioning of the North American economy, and its wide variety of business segments helps ensure a relatively balanced revenue stream.

CN is also very profitable and does a good job of investing the gains back into the businesses to make it more efficient while also being able to accommodate increasing demand for its services.

At the same time, the board sets aside funds to buy back shares and give investors a good raise every year. In fact, CN has a compound annual dividend-growth rate of about 16% over the past 20 years.

A \$10,000 investment in CN two decades ago would be worth \$210,000 today with the dividends reinvested.

The bottom line

A couple who each split a \$10,000 investment between Royal Bank and CN just 20 years ago would have \$350,000 today with the dividends reinvested.

There is no guarantee that a repeat performance is on the way over the coming decades, but Royal Bank and CN should continue to be solid picks for a balanced TFSA portfolio.

The strategy of owning top dividend stocks and using the distributions to acquire new shares is a proven one, and these stocks deserve to be on your radar.

CATEGORY

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2. Dividend Stocks
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1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:RY (Royal Bank of Canada)

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