



## How a Young Canadian Couple Can Retire At 50

### Description

Freedom at fifty might seem like a fanciful dream to most young couples who are currently 30 years old.

School debt, rent, utilities, and daycare wipe out a good chunk of the budget. Those who already managed to buy a house have to cover the mortgage, school taxes, property taxes, and maintenance.

Despite the heavy load, there are always a few dollars here and there that can go into a retirement fund. Some people get a bonus at the end of the year, or grandma and grandpa might kick in a few bucks around the holidays.

It doesn't take much to set up self-directed pension plan and the [TFSA](#) has some interesting features that can help you hit your retirement goal.

### TFSA pension

Since its launch, the TFSA contribution room has grown to a maximum of \$63,500 per person and the limit will rise by \$6,000 in 2020. This is adequate room to build a personal pension fund, and you don't need all that space right from the start.

The secret to creating a large nest egg lies in the power of compounding. Investors can buy reliable dividend stocks inside the TFSA and use the distributions to buy more shares. Most direct trading accounts allow you to set the program up automatically.

Over time, a snowball effect starts to build the portfolio as more shares generate greater [dividends](#) that purchase even more shares. In addition, top companies tend to have share prices that rise over time.

When the two forces are combined, investors can turn a reasonably modest initial fund into a significant retirement nest egg.

Which stocks are the best buys?

Companies with long track records of dividend growth and leadership positions in their industries tend to be the most attractive picks.

Let's take a look at one example that has performed well for its investors and should continue to be a top choice.

## Royal Bank of Canada

**Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) raised its dividend two times in 2019. This isn't a surprise for investors who have received a piece of the profits since the late 1800s and a compound annual dividend growth rate of 7% per year for the past decade.

The bank is Canada's largest financial institution by market capitalization with a value of \$150 billion. In fact, it's one of the 15 largest banks on the planet with operations in 36 countries and more than 85,000 employees serving 17 million clients.

Royal Bank's return on equity of 16.2% is the envy of many of its global peers. The bank earned \$12.9 billion in profits in fiscal 2019 and should see solid earnings growth over the medium term.

The profits come from a wide range of activities, with the main segments being personal and commercial banking, wealth management, and capital markets. Canada accounts for 62% of revenue, the U.S. contributes 23%, and the international businesses add the remaining 15%.

The global economy undergoes cycles and we are due for another downturn. Royal Bank has navigated every major financial crisis in the past 100 years and is positioned well to ride out the next one.

At the time of writing the stock provides an attractive 4% dividend yield.

## Returns?

A 30-year-old couple who invested \$100,000 in Royal Bank just 20 years ago would now have \$1.35 million with the dividends reinvested.

There is no guarantee that the bank will deliver the same results over the next two decades, but Royal Bank remains a strong choice for a TFSA pension fund.

The **TSX Index** is home to many top stocks that have performed as well, or even better, and the strategy of owning quality dividend stocks and investing the distributions in new shares is a proven winner.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## TICKERS GLOBAL

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

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aswalker

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