Forget Bitcoin! How Dividends Can Make You a TFSA Millionaire!

Description

We're all about long-term investing and favourable risk/reward trade-offs here at the Motley Fool, not speculating, so in true Canadian fashion, I'd like to apologize if you thought that the "millionaire-maker" stocks featured in a previous piece were some sort of speculative "sexy play" (like Bitcoin, marijuana, or tulips) that'll allow you to make quick riches over a short time span through the game of greater fools.

You see, the Motley Fool is not about playing the game of greater fools. We're all about discovering and investing in securities that are priced below their intrinsic value, not buying on the expectation that other (likely irrational) market participants will buy after you do because of their greed or the fear of missing out on riches — the greater fool theory in a nutshell.

And while the next "sexy play" will mint a few lucky millionaires, your chances of getting in at the ground floor on the next mania and becoming a millionaire (if you're not one already) over the short term is next to none.

When most investors hear of "millionaire-maker" stocks, the last thing that probably comes to mind are the garden-variety dividend stocks that most retail investors are already familiar with. Like it or not, such blue-chip dividend payers and their unremarkable 4% upfront yields are more than capable of minting millionaires over a long-term time horizon without requiring one to risk their shirts.

Although higher dividend payers are prone to delivering fewer capital gains over the short term relative to a non-dividend payer, a likely turn-off for beginner investors looking to maximize their returns over the near term, dividend payers actually vastly outperformed their non-dividend-paying counterparts over the long run.

Between January 1977 and December 2018, dividends accounted for approximately 33% of total returns for the **S&P/TSX Composite Index**. Think about that for a moment. Although you could score quicker capital gains with a non-dividend payer, over the long run, you could be leaving 33% of your potential total returns on the table.

Never underestimate the power of dividends! Especially with tax-free compounding (made possible bya TFSA) taken into consideration!

According to RBC Capital Markets, Canadian dividend growers and dividend payers massively outperformed (with annual total returns of 10.9% and 9%, respectively) both the index (5.6% total return) and non-dividend payers (-0.2% total return) between 1986 and 2018.

So, although it seems like those minuscule quarterly dividend payments of $100 are negligible, they could actually amount to a third (or more) of your wealth by the time you hit retirement age. Given the TSX Index tends to flatline for extended periods of time, leaving many non-dividend payers with nothing to show for their investment, it’s vital to insist on stocks that pay dividends, so you’re adequately compensated (and given annual raises with dividend growers), regardless of where stocks go next.

Throw a recession or two into the mix, and the influence of dividends becomes that much more significant. If you’re looking to hit a million with your TFSA, do yourself a favour and think about the power of dividends over the long term, and not speculative securities to double your money in a few months. If you’re a young investor, look to proven dividend growers like **CN Rail** for a near-guarantee of annual dividend raises that’ll make a world of difference over the decades!

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joefrenette