How to Build a Powerful TFSA for Your Retirement

Description

If you're an investor whose aim is to use the Tax-Free Saving Account (TFSA) to generate regular income, then you have to follow a few steps on this journey.

First, you've to understand that investing in stocks is a long-term process. It requires you to become a partner in companies you like. You should not be focused on the day-to-day market gyrations. Instead, you should be looking at the long-term viability of a business and its ability to compete and survive in a tough economic environment.

Generally, you'll find mature and boring businesses. Banks, power and gas utilities, healthcare providers, and telecom operators are some of the best examples of such stocks.

In this strategy, you can fill your TFSA with dividend stocks that pay increasing payouts, have enough cash, and have services that remain in demand in both good and bad times.

Because you're a long-term TFSA investor, let's say for the next 20 or 30 years, you're not too concerned about quarterly income setbacks. You'll only be concerned about any major shift in their competitive landscape, such as new technology disruption.

Another important consideration for your TFSA investing strategy should be to keep investing your dividends back into your portfolio. Thanks to the magic of compounding, the earlier you start investing in the market, the bigger your long-term gains can be.

Power of compounding

Let's assume $100 is invested in a high-yielding dividend stock through your TFSA and it gains 10% in a year. That holding will be worth $110 by the year's end. After another year and another 10% gain, it'll be worth $121. After a third year, it'll be $133.

The gains will continue to grow, because each year money is made from the previous year's profits. With that 10% average annual return, an investor can double their money in about seven years.

The magic of compounding works best the younger you are, because that means you have more time for your money to grow. For example, if a 25-year-old is just entering the workforce, they have more than 40 years before they retire.

They can start their TFSA with $10,000 investment in quality dividend stocks right now. In that case, if the average return remains at 10%, in 40 years, that $10,000 investment will be worth more than $450,000. Making that money did not require any stock picking, trading, or even research on individual companies.

For this TFSA strategy, I strongly recommend buying "forever" stocks from the industries I mentioned earlier.

Toronto-Dominion Bank, **Fortis**, and healthcare providers such as **Johnson & Johnson** and **Procter & Gamble** are some of the examples that can perfectly fit in this TFSA portfolio.

Bottom line

You can slowly build your income-generating TFSA by buying high-quality dividend stocks and then keeping them in your portfolio over the long run.

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