Tips for New Investors: How to Turn a $10,000 TFSA Into $200,000 for Retirement

Description

Online brokerage firms are reporting a surge in sign-ups for new accounts.

This shouldn't be a surprise. The pandemic lockdowns finally gave people the time to start learning about investing in stocks.

Some newcomers are simply using their fun money to trade while they wait for their favourite hangouts to open up again. Others, however, are now looking to invest for their futures and want to build long-term retirement funds.

TFSA investing

The TFSA is a great vehicle to help new investors build a tax-free pension fund. The cumulative contribution limit is up to $69,500 for Canadian residents who were at least 18 years old in 2009. That's a decent sum to build a meaningful portfolio, but you don't need to invest that much money at the start to end up with a substantial retirement fund in 20 or 30 years.

The TFSA provides great flexibility. If you need to tap the funds for an emergency, you can withdraw the money without a penalty. Ideally, that won't happen, but it's good to know the option is available. In the case of an RRSP, withholding taxes are applied.

Power of compounding

The most successful investors over time take advantage of the power of compounding. This involves buying top quality dividend stocks, and using the distributions to acquire new shares. In effect, the result is like rolling a snowball down a hill. It might start out as small as a marble, but could eventually grow to be as big as a house.

The secret ingredient is time, and that's where young investors have a great advantage over their parents or grandparents.

Top stocks

Stock prices rise and fall with cycles of the economy. It is nearly impossible to catch a bottom, and trying to time the market normally means missed dividend payments. As such, it makes sense to search for businesses with leadership positions in their industries. The best companies normally have long track records of dividend growth supported by rising revenue and earnings.

In the past few months, it has also become evident that businesses providing essential products or services tend to hold up well when there is an economic crisis.

Let’s take a look at one top TSX Index stock that has delivered solid returns over the years and should continue to be a good pick for a balanced TFSA pension fund.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) owns more than $50 billion in utility assets located throughout Canada, the United States, and the Caribbean.

The businesses range from power generation and electric transmission to natural gas distribution. This might not be as exciting as investing in cannabis stocks, but the results make up for the lack of entertainment.

Fortis gets most of its revenue from regulated assets. This is important, as it means cash flow should be predictable and reliable. The company grows through acquisitions and development projects, taking advantage of market opportunities to diversify geographic exposure and boost the rate base.

Fortis raised its dividend in each of the past 46 years. The current guidance is for an average annual increase of at least 6% through 2024.

A $10,000 investment in Fortis just 25 years ago would be worth more than $200,000 today with the dividends reinvested.

The bottom line

The strategy of buying quality dividend stocks and using the payouts to buy more shares is a proven one for building retirement wealth.

Fortis is just one stock in the TSX Index that has delivered great returns over the years and should continue to be a solid investment.

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