How to Turn a $10,000 TFSA Into $100,000 and More!

Description

When you start investing, the amount you save is much more important than the return on investments. While it is ideal to generate hefty returns each year, you should not discount the power of compounding over the long term.

The Canadian government introduced the TFSA (Tax-Free Savings Account) back in 2009 to encourage savings. While the contributions to this account are not tax deductible, any withdrawals are exempt from CRA (Canada Revenue Agency) taxes. The TFSA contribution limit for 2020 is $6,000, while the cumulative contribution limit for this registered account is $69,500.

While it's not easy to pull out the entire $69,500 from your pocket for investing, let's assume that you start with a figure of $10,000 of TFSA contributions. If you can continue to invest $5,000 a year going forward in your TFSA and generate annual returns of 10%, your investment will balloon to over $105,000 in 10 years.

If you extend the $5,000 contributions for 20 years, your investments will be close to $250,000. You can benefit from the power of compounding if you stay invested in the equity market.

For example, in the first 10 years, your savings will account for 57% of your capital and approximately 43% will be from invested returns. Comparatively, at the end of two decades, your savings will account for 45% of your total capital while invested returns will now be 55%. We can see that the longer you stay invested, the more your investments will contribute towards your net worth.

Investing in your TFSA with dividend stocks like Enbridge

Quality dividend-paying companies are one way to multiply your wealth over time. **Enbridge** (TSX:ENB)(NYSE:ENB) has a high dividend yield, and these payouts have been increasing consistently for over 20 years. We know that TFSA withdrawals in the form of capital gains or dividends are exempt from CRA taxes, making Enbridge an ideal bet for this account.

Enbridge is a Canadian energy giant with a diversified portfolio of assets. It transports around 25% of the crude oil and 20% of natural gas in North America. Further, over 95% of the company's cash flow is regulated under long-term contracts that generate a predictable stream of cash flows. This ensures Enbridge can continue to pay dividends, even during these uncertain times.

Enbridge stock is trading at $41.4, which is 28% below its 52-week high. The recent pullback has increased the stock's forward yield of 7.8%. Enbridge's dividend-payout ratio is expected to remain below 50% in 2020, making a dividend cut highly unlikely. The company's ability to generate stable cash flows combined with a low payout ratio makes it a top dividend stock.

Its high dividend yield suggests that investors will require Enbridge stock to grow by just over 2% over the next two decades to achieve a 10% annual return. Further, Enbridge's dividend growth stands at a juicy 11% in the last 25 years.

The Foolish takeaway

Enbridge is a high-quality, blue-chip Canadian stock that should be on the radar of income and contrarian investors. Its high dividend yield and solid history of dividend growth should generate double-digit returns for long-term investors and increase their investments at a healthy rate, as seen above.

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