Retire Early: How to Turn a $40,000 TFSA Into $650,000 in 20 Years

Description

The pandemic lockdown has attracted new investors to the stock market for a variety of reasons. Setting up a fund for early retirement is near the top of the list.

Live more, work less

A crisis tends to force people to sit back and reflect on their current and future lifestyles. As the COVID-19 outbreak continues to expand around the world, people want to spend more time enjoying life and less time working in the coming years.

Achieving financial freedom at a young age might not seem possible, but it is actually within reach of most people. Getting there requires disciplined spending habits and a healthy relationship with debt. Strategic investing also plays an important role.

Bad debt vs. good debt

The sooner we are debt-free, the sooner we can put up our feet and forget about setting the alarm clock every morning to make sure we are not late for work.

Unfortunately, very few people in the middle of their careers carry zero debt. The type of debt, however, is the important factor.

Credit card debt, for example is a sure-fire way to kill the early retirement dream. Credit cards charge up to 20% interest on outstanding balances. As such, they should be used for convenience, not credit, and all the charges must be paid off at the end of each billing period.

Mortgage debt is generally viewed as good debt, as long as home buyers don't get in over their heads. This is difficult in the current housing market, but it is important to give yourself some breathing room. The bank might tell you that you can afford to buy a property for $750,000, but that doesn't mean it is a good idea.

Interest rates won't always be this low. In addition, there might be times when income drops. It's important to have a cushion as well as a plan to eventually pay off the mortgage.

Power of compounding

Once credit card debt and other personal debt at high interest rates are eliminated, it makes sense to invest savings.

Stocks carry risks, but over the long haul, they tend to perform well. This is particularly true when the money is invested in top dividend stocks and the distributions are used to buy more shares. The strategy takes advantage of a powerful compounding process that can turn small initial investments into a significant retirement fund.

It takes patience and the discipline to let the funds grow through volatile markets, but the results can mean an early retirement.

The best companies tend to be industry leaders. They have strong track records of rising profits and dividend growth. They also tend to play essential roles in the economy.

Royal Bank of Canada and **Canadian National Railway** are good examples.

A $20,000 investment in Royal Bank just 20 years ago would be worth about $200,000 today with the dividends reinvested. A $20,000 investment in CN would be worth about $450,000.

There is no guarantee these two stocks will deliver the same performance over the next two decades, but the strategy of owning top dividend stocks and investing the distributions in new shares is a proven one.

Royal Bank and CN should be attractive picks today as part of a diversified TFSA pension fund. The **TSX Index** is home to many top dividend stocks that have delivered great returns over time.

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