Young Investors: How to Turn a $12,000 TFSA Into $245,000

Description

Young Canadians are trying to find ways to build significant savings using a Tax-Free Savings Account (TFSA). The goal might be to buy a house, a cottage, or simply put cash away for the golden years.

Retirement is certainly a big concern.

The good old days when companies hired waves of grads for full-time positions right out of school are effectively gone. Freelance and contract work is now widespread for young professionals. That provides flexibility, but it doesn't come with benefits. As such, people need to create their own personal pension plans.

When a permanent job becomes available, the pension benefit is normally a defined-contribution plan. In this case, the employer matches an employee's contributions, but the amounts can vary significantly. In addition, the risk sits on the shoulders of the employee, as the payout in retirement depends on how much the fund grows.

That's different from a defined-benefit pension. In this case a set payment is guaranteed for as long as you live once you retire. Aside from a few large companies and government positions, it is difficult to find work these days where a defined-benefit pension plan exists.

TFSA advantage

The TFSA is a great tool for young investors to save for their future. The flexibility of the TFSA allows a person to pull money in the event they need it for an emergency. The funds are not subjected to a withholding tax, as is the case when cash is removed from RRSP accounts.

Any interest, dividends, or capital gains generated inside the TFSA remain beyond the reach of the tax authorities. This is important when building a personal pension. Investors use the dividends to buy new shares, setting off a powerful compounding process. Modest initial investments can turn into substantial savings over the course of two or three decades.

When the time comes to cash out and spend the money, all the gains are yours to keep!

Best stocks to own in a TFSA

Top TFSA stocks for a personal retirement fund tend to be ones that have long track records of dividend growth. These companies often provide essential products or services and generate steady revenue in all economic circumstances.

Fortis (TSX:FTS) (NYSE:FTS) is a good example. The company owns power generation, electric transmission, and natural gas distribution businesses in Canada, the United States, and the Caribbean.

Fortis grows through acquisitions and internal developments. The current capital program tops $19 billion, so the rate base is set to expand in the next few years. In fact, Fortis says the rate base will increase enough to support average annual dividend hikes of 6% through 2025.

That's great guidance in the current economic environment.

The board just raised the payout by 5.8% and Fortis increased the dividend in each of the past 46 years. TFSA investors who buy the stock today can pick up a 3.8% yield.

Long-term investors have done well with this stock. A $12,000 investment in Fortis 25 years ago would be worth $245,000 today with the dividends reinvested.

The bottom line

The strategy of buying top dividend stocks and investing the distributions in new shares is a proven one to build retirement wealth. Fortis is just one of the top dividend stocks in the **TSX Index**. It is best to have a balanced portfolio with exposure to different industries.

It takes patience and discipline, but young investors can use the TFSA to build a substantial personal pension.

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1. Dividend Stocks
2. Investing

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