New Investors: How to Turn a $12,000 TFSA Into $350,000 in 25 Years

Description

The TFSA is a great tool to help young Canadian investors build a substantial portfolio for their retirement.

TFSA advantage

The TFSA limit increased by $6,000 for 2021. That brings the cumulative total contribution room to $75,500 for Canadian residents who were at least 18 years old when the TFSA began in 2009.

Saving $6,000 a year to put into the TFSA takes some discipline, but the payoff can be enormous. In fact, young investors can harness the power of compounding inside the TFSA to build a substantial fund with all profits remaining beyond the reach of the CRA.

A proven strategy to create investing wealth involves buying top dividend stocks and using the distributions to acquire new shares. The snowball effect is slow at the start but can eventually create a massive savings fund, especially when steady capital appreciation occurs alongside dividend growth.

Best stock to buy for a TFSA

The best **TSX** stocks to buy tend to have long track records of dividend hikes. These companies are often industry leaders and demonstrate solid profit growth supported by higher revenue.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Enbridge** (TSX:ENB)(NYSE:ENB) to see how the strategy works.

Royal Bank

Royal Bank is Canada's largest financial institution and one of the top 15 in the world. The bank survived every major geopolitical and financial crisis over the past 150 years. The pandemic is no different. Royal Bank earned $11.4 billion in profits in 2020 and just reported strong results for Q1 fiscal 2021.

With a CET1 ratio of 12.5%, the bank is sitting on significant excess capital. Investors should see a big dividend increase and a new share-buyback program announced as soon as the government allows Royal Bank and its peers to deploy the cash.

Long-term investors have enjoyed great returns. A $6,000 investment in Royal Bank 25 years ago would be worth $185,000 today with the dividends reinvested.

Enbridge

Enbridge is a leader in the North American energy infrastructure industry. It transports 20% of the natural gas used in the United States and moves 25% of the oil produced in the U.S. and Canada. The company also has natural gas utility businesses and renewable energy assets.

The energy sector is out of favour with investors, but oil and natural gas demand won't disappear. In fact, it is expected to continue to grow from decades, despite the trend towards electric vehicles and renewable power. At the same time, getting new major pipelines built is a challenge, so the existing networks become increasingly valuable.

Enbridge generates strong revenue and anticipates steady growth in distributable cash flow. The stock appears cheap right now and offers a 7.8% dividend yield.

An investor who'd bought $6,000 worth of Enbridge stock 25 years ago would have about $165,000 today with the dividends reinvested.

The bottom line on TFSA investing

Royal Bank and Enbridge are industry leaders that should continue to deliver solid returns for decades. The TSX is home to several top stocks that have made buy-and-hold investors wealthy. The strategy of harnessing the power of compounding benefits young TFSA investors who have the time and patience to maximize their returns.

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Date
2025/07/27
Date Created
2021/03/01
Author
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