



TFSA Wealth: How \$10,000 Can Become \$300,000 in 20 Years

Description

TFSA investors want to buy top **TSX** stocks to help them build wealth for retirement. The market appears expensive today, but the best stocks remain attractive for buy-and-hold portfolios.

Why the TFSA is a useful tool to build a retirement fund

The government created the TFSA in 2009 to give Canadians another savings tool to go along with the RRSP. In 2021, the TFSA contribution limit is \$6,000, bringing the cumulative contribution space to \$75,500 since its inception.

Seniors use the TFSA to generate tax-free income. Younger investors use the TFSA to save for a major purchase, like a house or a cottage, or to put cash away as part of their retirement plan.

Investors who think their income level will increase in the coming years might consider using the TFSA as the primary investment vehicle. This way, [RRSP](#) space can be saved for later when a person is in a higher marginal tax bracket. RRSP contributions are used to reduce taxable income, so the benefit is larger when earnings rise.

The TFSA also provides attractive flexibility. Investors can pull funds at any time to cover an emergency. The amount withdrawn opens up new contribution room in the next calendar year.

Best stocks for a TFSA retirement fund

One popular strategy to build retirement wealth involves owning [top dividend stocks](#) and using the distributions to acquire new shares. This takes advantage of the power of compounding and can turn relatively small initial investments into large savings over time.

Stocks with long track records of dividend growth tend to be good picks. Look for companies that hold leadership positions in their industries.

Let's take a look at **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) to see how the process works.

Royal Bank

Royal Bank is Canada's largest financial institution by market capitalization. It also ranks among the top 15 in the world. The company is very profitable with [fiscal Q1 2021](#) net income of \$3.8 billion and return on equity (ROE) of 18.6%.

Royal Bank has the financial clout to make strategic acquisitions to drive growth. In addition, the bank invests heavily in its digital transition to ensure it remains competitive in a rapidly changing industry.

Long-term investors have enjoyed great returns. A \$5,000 investment in Royal Bank stock 20 years ago would be worth \$95,000 today with the dividends reinvested.

CN

CN is a leader in the North American rail industry. The company serves a key role in the efficient operation of the Canadian and U.S. economies. CN owns nearly 20,000 route miles of track that connect three coasts. It is a unique network in the sector, providing CN with a strong strategic advantage.

That's probably why Bill Gates likes the stock. The billionaire owns about 14% of CN's outstanding common shares.

CN generates significant profits and free cash flow. The board raised the dividend by 7% for 2021 and CN is one of the top dividend-growth stocks on the TSX over the past 25 years.

Investors who bought \$5,000 of CN stock 20 years ago would have \$205,000 today with the dividends reinvested.

The bottom line on TFSA investing for retirement

The TFSA is a great tool for investors to harness the power of compounding. Royal Bank and CN are leaders in their respective industries and should continue to be top holdings for a retirement fund.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)

4. TSX:RY (Royal Bank of Canada)

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Author

aswalker

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