



## RRSP Investors: How to Turn \$20,000 Into \$460,000 in Just 25 Years

### Description

Canadian savers are using their self-directed [RRSP](#) to buy top stocks that will hopefully build a substantial fund for retirement.

### RRSP benefits

The RRSP was created 65 years ago to help Canadians save cash for retirement. The program has gone through several positive changes over the years that include increased contribution limits based on income and the ability to carry forward unused space.

The big appeal of the RRSP contribution is the reduction of a person's taxable income. The potential benefit is highest for people who find themselves in the top marginal tax brackets.

RRSP investments can grow tax free inside the plan, and the funds are taxed as income when withdrawn. Ideally, a person will make the contributions when they are in a high tax bracket and then use savvy [retirement planning](#) to remove the funds down the road when their income is lower. This way, Canadians benefit from the gains on the investments over time and eventually pay less tax on the money than they would have when it was earned and initially contributed to the RRSP.

People can hold a wide variety of investments inside their RRSP. One popular strategy involves owning top dividend stocks and using the distributions to buy new shares. This harnesses the power of compounding and can turn modest initial investments into large savings over the course of two or three decades.

### Fortis

**Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) is a utility company based in Newfoundland with \$57 billion in assets spread out across Canada, the United States, and the Caribbean.

The business has grown steadily over the years through a combination of strategic acquisitions and

development projects. Fortis is currently working on a \$20 billion capital program that will significantly increase the rate base over the next five years. As a result, management expects revenue to grow steadily, and the extra cash flow should support average annual dividend increases of 6%. At the time of writing, the stock provides a 3.6% yield. Fortis raised the payout in each of the past 48 years.

A \$10,000 investment in Fortis 25 years ago would be worth about \$187,000 today with the dividends reinvested.

## Royal Bank

**Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) is a giant in the Canadian banking [sector](#) with a [market capitalization](#) of \$205 billion. It is also one of the 10 largest banks in the world based on that metric.

Royal Bank generated strong profits in 2021 despite the pandemic challenges. The board raised the dividend by 11% when the bank reported the fiscal Q4 results, and another generous increase to the payout is likely on the way in 2022.

Royal Bank's return on equity is very high by global bank standards, yet the stock still trades at a reasonable 13 times trailing 12-month earnings. At the time of writing, RY stock provides a 3.3% dividend yield.

The Bank of Canada and the U.S. Federal Reserve are expected to start increasing interest rates this year. Higher rates will put some borrowers in a difficult situation, and loan losses could tick higher, but the overall impact of rising interest rates tends to be very positive for Royal Bank and its peers, as they can generate better net interest margins.

Long-term investors have done well with the stock. A \$10,000 investment in Royal Bank 25 years ago would be worth about \$273,000 today with the dividends reinvested.

## The bottom line on building RRSP wealth

Fortis and Royal Bank are good examples of how RRSP investors can use the power of compounding to turn relatively small initial investments into large savings for retirement. A \$20,000 investment split between the two stocks just 25 years ago would be worth approximately \$460,000 today with the dividends reinvested.

Future returns are not guaranteed to be as high, but the stocks still look good as anchor positions for a diversified RRSP portfolio focused on dividend growth.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. NYSE:RY (Royal Bank of Canada)

3. TSX:FTS (Fortis Inc.)
4. TSX:RY (Royal Bank of Canada)

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