



## Power of Compounding: Top TSX Dividend Stocks to Build Wealth

### Description

Canadian investors are searching for top TSX dividend stocks they can buy inside a self-directed [TFSA](#) or [RRSP](#) to harness the power of compounding and build a substantial [retirement](#) portfolio.

### Power of compounding

A popular strategy to create long-term wealth is to own quality dividend-growth stocks and use the distributions to buy more shares. This triggers a snowball effect that can turn a modest initial investment into a large retirement fund over the course of two or three decades, especially when dividends rise at a steady pace and the stock price trends higher.

The best stocks to buy and not necessarily the ones with the highest yields. In this investing strategy, the size and reliability of the dividend increases are more important than the yield at the time you buy the stock.

### Fortis

**Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) has raised its dividend in each of the past 48 years, and the board intends to increase the distribution by an average annual rate of 6% through at least 2025. This is great guidance for dividend investors who are using the payouts to buy new shares.

Fortis gets most of its revenue from regulated utility businesses. This means the cash flow should be predictable and reliable. The company grows through capital projects to expand its existing portfolio. The current \$20 billion capital program is expected to boost the rate base by about a third through 2026. Fortis also has a great track record of making strategic acquisitions.

A \$10,000 investment in Fortis stock 25 years ago would be worth about \$180,000 today with the dividends reinvested.

## TD Bank

**TD** ([TSX:TD](#))([NYSE:TD](#)) is Canada's second-largest bank by [market capitalization](#). The company is best known for its Canadian retail banking strength, but TD also has a large presence in the United States that runs right down the east coast from Maine to Florida.

TD made it through the worst of the pandemic in great shape and is now sitting on excess cash it can use to hike dividends, buy back stock, and make acquisitions. The board raised the dividend by 13% when it announced fiscal 2021 results late last year.

The Bank of Canada and the U.S. Federal Reserve are expected to increase interest rates in 2022 and 2023. This should be positive for TD and its peers. Rising rates tend to boost net interest margins for the banks.

TD is one of the top dividend-growth stocks in the **TSX Index** with a compound annual dividend-growth rate of better than 10% over the past two decades.

A \$10,000 investment in TD stock 25 years ago would be worth more than \$250,000 today with the dividends reinvested.

## CN

**CN** ([TSX:CNR](#))([NYSE:CNI](#)) just raised its dividend by 19% for 2022. The railway is a good stock to buy for investors who want a top pick that grows with the Canadian and U.S. economies. CN has a wide competitive moat thanks to its unique rail network that connects three coasts.

The business generates strong free cash flow to support generous dividend increases. CN gets revenue in both Canadian and U.S. dollars, as it moves raw materials and finished goods between the two countries. CN serves many segments, including forestry, automotive, oil, fertilizer, coal, grain, and intermodal.

A \$10,000 investment in CNR stock 25 years ago would be worth more than \$530,000 today with the dividends reinvested.

## The bottom line on harnessing the power of compounding

A \$30,000 portfolio equally split between Fortis, TD, and CN just 25 years ago would be worth more than \$960,000 today with the dividends reinvested.

There is no guarantee the future returns will be the same, but the stocks still deserve to be solid anchor picks and are great examples of how the power of compounding can help Canadian investors build TFSA or RRSP wealth for retirement.

### CATEGORY

1. Dividend Stocks

2. Investing

## POST TAG

1. Editor's Choice

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2. NYSE:FTS (Fortis Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:CNR (Canadian National Railway Company)
5. TSX:FTS (Fortis Inc.)
6. TSX:TD (The Toronto-Dominion Bank)

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