RRSP Wealth: How to Turn $20,000 Into $530,000 in 25 Years

Description

Canadian savers are looking for ways to build substantial self-directed RRSP portfolios to complement CPP, OAS, and company pensions.

Power of compounding

A popular investing strategy that has made many RRSP investors quite wealthy involves buying top TSX dividend stocks and using the distributions to buy new shares. The effect is like rolling a snowball to build a snowman. Each dividend buys new stock that, in turn, creates even higher dividend payouts to buy even more shares. The compounding process is slow at the start, but the impact can be significant over the course of 20 or 30 years. This is particularly true when companies steadily increase their payouts and are rewarded with climbing share prices.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) raised its dividend by 3% for 2022. This was the 27th consecutive increase to the payout. The strong track record shows the strength of Enbridge's revenue and cash flow, even during challenging times. The company is a key player in the Canadian and U.S. energy infrastructure sector with strategic assets that move 25% of the oil produced in the two countries and 20% of the natural gas used in the United States.

Enbridge is investing in new market opportunities to drive growth. The renewable energy group continues to grow, and Enbridge is also positioned well to be a leader in the emerging carbon sequestration and storage market.

Enbridge's dividend currently offers a yield of 6.3%.

A $10,000 investment in ENB stock 25 years ago would be worth about $280,000 today with the dividends reinvested.

TD Bank

TD (TSX:TD)(NYSE:TD) is Canada's second-largest bank by market capitalization. The company is known for its strong retail banking business in Canada, but TD has also built a significant presence in the United States over the past 15 years through a string of acquisitions. The bank actually operates more branches south of the border than in the home market.

TD generated strong profits in fiscal 2021 and finished the year with a CET1 ratio of better than 15%. This means TD is sitting on a war chest of excess capital it can deploy through dividend increases, share buybacks, and new acquisitions.

TD raised the dividend by 13% when it reported fiscal Q4 2021 results. The compound annual dividend-growth rate over the past two decades is roughly 11%.

The Bank of Canada and the U.S. Federal Reserve will start raising interest rates in 2022. Higher borrowing costs could lead to more defaults by over-leveraged businesses and homeowners. However, rising rates tend to be net positive for TD and its peers, as they can generate better net interest margins.

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

The bottom line on building RRSP wealth

Enbridge and TD are two good examples of top TSX dividend stocks that have generated strong long-term returns for RRSP investors. A $20,000 investment split between the two stocks just 25 years ago would be worth $530,000 today with the dividends reinvested.

It takes patience and discipline to let the power of compounding do its magic, but Canadian savers can use the strategy to build significant retirement funds with modest initial investments.

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2. NYSE:TD (The Toronto-Dominion Bank)
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