How Young Investors Can Turn $10,000 Into $275,000 for Retirement

Description

Young investors have an advantage over their parents or grandparents when it comes to TFSA or RRSP investing. It's called time.

Power of compounding

New investors can use quality dividend stocks to harness the power of compounding and potentially build substantial portfolios for their retirement. The strategy involves using dividends to buy additional shares. These new shares in turn pay dividends that then buy even more stock, setting off a growth process that can turn small initial investments into significant savings over the course of two or three decades.

The strategy requires patience and discipline to let the magic work, but the results can be impressive, especially when dividend growth is combined with a rising share price.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a utility company with $58 billion in assets located in Canada, the United States, and the Caribbean. The operations include power production, electric transmission, and natural gas distribution.

Revenue is regulated in these segments, meaning Fortis has a good idea what its cash flow will look like every year. Fortis provides essential services that homes and businesses require regardless of the state of the economy.

Growth comes via acquisitions and capital projects. The company has a $20 billion capital program in place that is expected to raise the rate base by about a third to roughly $40 billion by 2026. Fortis expects the resulting increase in cash flow to support targeted dividend hikes of about 6% per year through at least 2025.

A new acquisition or additional projects would potentially push up the size of the payout increase each year and extend the outlook.

Fortis offers a 3.3% dividend yield at the time of writing. The board has raised the distribution in each of the past 48 years.

Long-term investors have done very well by holding Fortis stock. A $5,000 investment in Fortis 25 years ago would be worth more than $100,000 today with the dividends reinvested.

TD Bank

TD (TSX:TD)(NYSE:TD) recently announced a US$13.4 billion acquisition in the United States. The purchase of First Horizon will add more than 400 branches to the American business and make TD one of the top-six retail banks in the American market.

The move should help drive steady long-term growth and support dividend increases. TD raised the dividend by 13% late last year when it announced the fiscal 2021 results. Another generous payout hike is probably on the way for fiscal 2023. TD is one of the best dividend-growth stocks on the TSX Index over the past two decades with a compound annual dividend growth rate of better than 10%.

Investors have enjoyed good long-term returns from TD shares. A $5,000 investment in the stock 25 years ago would be worth about $175,000 today with the dividends reinvested.

The bottom line on building retirement wealth

A $10,000 investment split between Fortis and TD just 25 years ago would now be worth about $275,000 with the dividends reinvested. That's a nice nest egg for retirement. There is no guarantee that future returns will be the same, but the strategy of owning top dividend stocks is a proven one for building long-term total returns. TD and Fortis still look attractive as anchor picks.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:FTS (Fortis Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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