How to Turn a $10,000 RRSP Into $200,000

Description

Canadian investors are looking for top stocks to buy inside their self-directed RRSP accounts. One popular strategy for retirement planning involves buying quality dividend stocks and using the distributions to acquire new shares.

Power of compounding

Young investors can harness the power of compounding to build retirement wealth. Dividends, interest, and capital gains are not taxed inside the RRSP, so the full value of any earnings can be reinvested. Investors only pay income tax on the funds that are withdrawn. Ideally this occurs at a lower marginal tax rate than when the initial RRSP contribution is made to reduce taxable income.

In the case of dividends, investors can direct their online brokerage accounts to participate in a company's dividend-reinvestment plan (DRIP). In some cases, there is even a discount provided to shareholders who use their distributions to buy more shares. Taking advantage of the DRIP enables investors to start a powerful compounding process that can turn small initial investments into large savings over the course of two or three decades. The effect is similar to rolling a snowball down a hill.

In situations where the company raises the dividend on a regular basis and the share price moves higher over time, the impact on the size of the investor's portfolio can be significant.

Let's take a look at one top TSX dividend stock that is a good example of how the process works.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a utility company with $58 billion in assets located in Canada, the United States, and the Caribbean. Nearly all of the revenue comes from regulated businesses, so cash flow tends to be predictable and reliable. That's important for RRSP investors who need steady dividends to build their savings.

Fortis grows by buying other utilities. It also invests in new projects to expand the operations in its existing subsidiaries. The current $20 billion capital program will increase the rate base from $31 billion to more than $40 billion by the end of 2026. As a result, management plans to raise the dividend by an average of 6% per year through 2025 as the cash flow grows. The board raised the dividend in each of the past 48 years.

Investors could see even larger dividend increases. Fortis is evaluating a number of extra projects that could get added to the capital program. The company also has a great track record of making strategic acquisitions that drive earnings growth. Its last big deal occurred in 2016 when it purchased ITC Holdings for US$11.3 billion.

Fortis hired a merger and acquisition specialist to join the senior management team last year, so there could be more deals on the way.

Long-term RRSP investors have done well with Fortis stock. A $10,000 investment in the shares 25 years ago would be worth about $200,000 today with the dividends reinvested.

The bottom line on building RRSP wealth

Fortis is just one example of a top dividend stocks that RRSP investors can own to harness the power of compounding to build a retirement fund. There is no guarantee the returns will be the same in the next 25 years, but the strategy of buying top dividend stocks and using the distributions to acquire news shares is a proven one for creating wealth.

The TSX Index is home to many great dividend stocks that have delivered similar or better returns and would be good candidates for a balanced RRSP portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. aswalker
2. kduncombe

Category

1. Investing

Date
2025/09/24
Date Created
2022/04/27
Author
aswalker