How to Turn a $10,000 TFSA Into $195,000 for Retirement

Description

Young Canadian investors are using their TFSA to build stock portfolios for a self-directed pension. One popular strategy for boosting total returns involves owning top dividend stocks and using the distributions to buy more shares.

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Power of compounding

Investors in the early part of their careers can harness the power of time to help them create a meaningful retirement fund from relatively small initial investments.

Top Canadian dividend stocks pay reliable and growing distributions supported by rising income and higher profits. This, in turn, tends to lead to a rising share price, as investors feel comfortable with the company's ability to deliver attractive total returns.

Each new share purchased by the dividends increases the size of the payout received on the next distribution. Over the course of 20 or 30 years, this process can have a meaningful impact on the value of an investor's portfolio.

Let's take a look at one top Canadian dividend stock that is a good example of how the strategy works and should continue to be an attractive pick for a TFSA pension.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a utility company with $58 billion in assets located across Canada, the United States, and the Caribbean. The businesses include power production, electricity transmission, and natural gas distribution operations. Fortis gets 99% of its revenue from regulated assets, so the cash flow is generally predictable and reliable.

Fortis drives revenue and profit growth through strategic acquisitions and internal development projects. The current $20 billion capital program is expected to increase the rate base by about $10 billion by the end of 2026. As a result, management is providing dividend growth guidance of about 6% per year through at least 2025.

The board raised the dividend in each of the past 48 years, so investors should feel confident that the trend will continue. Fortis is evaluating a number of other capital projects that could get added to the development portfolio in the next few years. If these get the green light, the size of the dividend increases could be increased, and the horizon for the payout hikes at that level extended.

Another large acquisition could also occur as the utility sector consolidates. Fortis hired a mergers and acquisitions expert to the senior management team last year. The company has a successful track record of adding new businesses to the asset portfolio, with the last two large deals occurring in the United States.

At the time of writing, Fortis trades near $63 per share and provides a 3.4% dividend yield. Investors who bought $10,000 of Fortis stock 25 years ago would now have about $195,000 with the dividends reinvested. In addition, the original $10,000 investment would currently generate more than $6,600 per year in dividends if all the dividends had been used to buy more shares.

The bottom line on top stocks for TFSA total returns

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There is no guarantee Fortis will deliver the same results in the next 25 years, but the stock still deserves to be an anchor pick, and the strategy of buying top dividend stocks and using the payouts to acquire new shares is a proven one for building wealth.

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