Retirement 101: How Investors Can Turn $20,000 Into $500,000 in 25 Years

Description

Young investors have a large advantage over their parents when it comes to building significant savings portfolios for the golden years.

Power of compounding

Buying top-quality dividend stocks and using the distributions to acquire new shares gives investors a chance to harness the power of compounding to build a self-directed RRSP or TFSA retirement fund. The process is slow at the start, but savers can create substantial funds for their retirement years over the course of two or three decades.

BCE

BCE (TSX:BCE)(NYSE:BCE) is a popular stock to own for both income and total returns. The communications giant has a strong competitive position in the Canadian market and possess the financial strength to make the investments required to drive revenue and profit growth.

BCE is running fibre optic lines to the buildings of its commercial and residential customers. The initiative ensures clients have the broadband they need for video meetings in the work environment and for streaming movies when it is time to relax.

BCE is also investing billions of dollars to expand its 5G network. This will open the door for new revenue streams and help protect the competitive moat.

BCE reported good Q1 2022 results, and the rest of the year should deliver solid numbers, as advertisers continue to ramp up spending in the media business and roaming fees jump due to increased vacation and business travel.

BCE raised the dividend by at least 5% annually for the past 14 years. The current payout provides a yield of 5.4%. This is attractive for income investors as well as for those who plan to use the distributions to acquire new shares.

A $10,000 investment in BCE stock 25 years ago would be worth more than $210,000 today with the dividends reinvested.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) operates a vast network of oil and natural gas pipelines in Canada and the United States. The company also has natural gas utilities that provide homes and businesses with essential fuel. Enbridge's renewable energy division has solar, wind, and geothermal assets.

The company moves 30% of the oil produced in Canada and the United States and transports 20% of the natural gas used by Americans. Enbridge is eyeing export opportunities as the world seeks reliable oil and gas. The company spent US$3 billion on an oil export platform last year and recently announced plans to build natural gas infrastructure to supply liquified natural gas (LNG) facilities.

Enbridge expects distributable cash flow to increase by 5-7% per year over the medium term. This should support steady dividend increases. The board raised the payout in each of the past 27 years.

Investors who buy Enbridge stock at the time of writing can pick up a 5.8% dividend yield. A $10,000 investment in Enbridge 25 years ago would be worth more than $290,000 today with the dividends reinvested.

The bottom line on building retirement wealth

Investing for retirement takes patience and discipline. It is a marathon rather than a sprint, but the rewards can be substantial.

BCE and Enbridge are good examples of how an investor would have turned $20,000 into a half million for retirement over the past 25 years. There is no guarantee these stocks will deliver the same returns in the future, but the strategy of buying top dividend stocks and using the dividends to acquire new shares is a proven one for building retirement wealth.

CATEGORY

1. Investing

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:ENB (Enbridge Inc.)

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