New TFSA Investors: How to Turn $7,500 Into $150,000 in 25 Years

Description

The stock market pullback is giving Canadians a chance to buy some top TSX stocks at discounted prices to start a TFSA retirement fund. One popular investing strategy for building pension wealth involves buying reliable dividend stocks and using the distributions to acquire additional shares.

Power of compounding

Savvy investors have harnessed the power of compounding for decades to build substantial retirement portfolios. The process involves using a company's dividend-reinvestment plan (DRIP) to buy new share with the distributions rather than taking the cash. The DRIP often provides a discount to the share price, as much as 5%, and there are no fees for buying the extra stock. Investors can normally set the process up automatically inside their self-directed online brokerage accounts. In this case, only full shares are normally purchased with the payout. When the stock is held directly by the investor, the DRIP might allow for the purchase partial shares, in which case, the total value of the dividend can go straight into new stock.

Using this strategy to build wealth takes time and patience. Pullbacks in the stock's share price provide opportunities to buy more shares with the dividends. Over the course of two or three decades, most top dividend stocks raise their payouts steadily and their share prices climb, providing attractive total returns.

Let's take a look at one top TSX dividend stock that is a good example of how the power of compounding works and should still be an anchor pick for a balanced TFSA portfolio focused on building retirement wealth.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a Canadian utility company with $58 billion in assets located in Canada, the United States, and the Caribbean. The businesses get 99% of their revenue from regulated assets, including power generation, electricity transmission, and natural gas distribution operations.

Fortis currently has a $20 billion capital program on the go that will increase the rate base by roughly a third to more than $40 billion by 2026. Additional projects are under consideration that could increase the size of the rate-base growth. Management expects the resulting increase in cash flow to support average annual dividend hikes of at least 6% through 2025.

Fortis has raised the dividend in each of the past 48 years, so investors should be comfortable with the guidance. At the time of writing, the stock provides a 3.4% dividend yield. Fortis has a DRIP set up that offers a 2% discount on the purchase of new shares.

Fortis also grows through strategic acquisitions. The company hired a mergers and acquisitions specialist to the senior management team last year. This suggests new deals could be on the way, as the utility sector consolidates.

Long-term Fortis investors have done well with the stock. A $7,500 investment in Fortis 25 years ago would be worth almost $150,000 today with the dividends reinvested.

The bottom line on building TFSA retirement wealth

There is no guarantee Fortis will generate the same total returns for investors in the coming years, but the stock remains a solid pick and the strategy of buying top dividend stocks and using the distributions to acquire new shares is a proven one for building savings for retirement. The **TSX Index** is home to many top dividend-growth stocks that have delivered similar or even better returns.

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
2025/08/29
Date Created
2022/05/31
Author
aswalker