TFSA Wealth: How to Turn $40,000 Into $1.3 Million in 25 Years With Top TSX Dividend Stocks

Description

The market pullback is giving TFSA investors a chance to buy some of Canada's top total-return stocks at undervalued prices. It takes courage to buy stocks during a market correction, but picking up great dividend stocks on dips can significantly boost long-term returns.

Canadian National Railway

CN (TSX:CNR)(NYSE:CNI) trades near $140 per share at the time of writing compared to the 12-month high around $170. The stock appears undervalued right now, and history shows that buying CN on weakness tends to be a savvy move for patient investors.

CN serves an integral role in the smooth operations of the Canadian and U.S. economies. The company transports commodities such as grain, oil, coal, fertilizer, and forestry products from producers to ports for shipment to international buyers. CN also moves car parts and finished goods back and forth from Canada and the United States. The unique rail network runs from the Pacific to the Atlantic in Canada and down through the heart of the United States to the Gulf Coast.

CN has a great track record of dividend growth supported by rising free cash flow. The board raised the dividend by 19% for 2022. CN is also returning capital to shareholders through stock buybacks.

The dividend yield is only 2%, but the company has delivered impressive total returns over the years. A $20,000 investment in CN stock 25 years ago would be worth about $900,000 today with the dividends reinvested.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) is Canada's largest financial institution with a market capitalization of $180 billion. The stock currently trades near $128 per share on the TSX compared to the 2022 high just below $150. The pullback is giving investors a chance to buy RY stock on a meaningful dip and secure a solid 4% dividend yield.

Royal Bank raised the dividend by 11% late last year and recently increased the payout by another 7%. This suggests the board and the management team are comfortable with the revenue and profit outlook over the next few years, even as economists are increasingly worried about a recession.

Royal Bank is investing heavily in digital solutions and mobile banking to ensure it remains competitive in a rapidly changing industry. The bank has a balanced revenue stream coming from several segments and geographic locations. Royal Bank operates strong personal banking, commercial banking, capital markets, wealth management, insurance, and investor and treasury services groups. It also gets a good mix of revenue from Canada, the United States, and overseas operations.

Royal Bank is using part of its current cash hoard to make acquisitions. The latest deal is the $2.6 billion purchase of a wealth management business in the United Kingdom. Additional takeovers could be on the way.

A $20,000 investment in RY stock 25 years ago would be worth more than $400,000 today with the dividends reinvested.

The bottom line on top stocks to build TFSA wealth

CN and Royal Bank are proven dividend-growth stocks that have delivered solid total returns for decades. There is no guarantee the performance will be the same over the next 25 years, but these stocks remain attractive for a buy-and-hold portfolio and the strategy of owning top dividend stocks and using the distributions to acquire new shares is a proven one for building wealth.

CATEGORY

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:RY (Royal Bank of Canada)

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Date
2025/07/26
Date Created
2022/06/10
Author
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