How TFSA Investors Can Turn $15,000 Into $270,000 for Retirement

Description

The market pullback is giving new TFSA investors a chance to buy top TSX dividend stocks at undervalued prices to create a self-directed tax-free pension plan. One popular investing strategy for building a retirement fund involves using dividends to buy new shares.

Power of compounding

Savvy buy-and-hold investors have harnessed the power of compounding for decades to create substantial wealth. Each new share purchased by reinvesting dividends creates an even larger dividend payout on the next distribution. That, in turn, buys more shares that pay even more dividends. The impact on the portfolio is small at the start, but the snowball effect can be impressive over time, especially when the dividend paid per share increases and the share price rises.

Let's take a look at one example of a top TSX dividend stock that has made long-term investors quite rich.

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. Nearly all of the revenue comes regulated businesses, so cash flow is generally predictable and reliable. Fortis owns power generation, electricity transmission, and natural gas distribution operations.

Growth comes from strategic acquisitions and organic projects. The current $20 billion capital program is expected to increase the rate base by about a third to more than $40 billion by the end of 2026.Fortis expects cash flow to grow enough to support average annual dividend increases of 6% throughat least 2025. The company has other projects under consideration that could get added to thedevelopment program. In addition, it wouldn't be a surprise to see Fortis make another acquisition asthe utility sector consolidates. The company added a mergers and acquisitions specialist to the seniormanagement team last year.

Fortis should be a solid defensive stock to own to ride out difficult economic times. Economists are predicting a recession in the next two years, so investors should look for businesses that provide essential services. Households and companies need to use electricity and natural gas regardless of the state of the economy. This means Fortis is less at risk when discretionary spending gets cut.

Fortis has raised the dividend in each of the past 48 years, so the guidance on dividend growth should be solid. Companies that steadily increase distributions tend to see their share prices move higher over the long haul.

The stock isn't immune to a downturn in the broader market, but pullbacks are generally good opportunities to add to the holdings. Fortis currently trades near $61 per share compared to the 2022 high around $65, so investors have a chance to buy the stock on a dip.

At the time of writing, Fortis provide a 3.5% dividend yield.

Long-term investors have done well with Fortis stock. A $15,000 investment in the shares 25 years ago would be worth about $270,000 today with the dividends reinvested.

The bottom line on building a TFSA pension

There is no guarantee that Fortis will deliver the same returns over the next 25 years, but the strategy of owning quality dividend stocks and using the distributions to buy more shares is a proven on for building wealth.

The **TSX Index** is home to many top dividend stocks that have generated similar or even better returns, and Fortis still deserves to be an anchor holding in a diversified TFSA retirement fund.

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