TFSA Millionaire: How to Turn $40,000 Into $1.2 Million for Retirement

Description

Canadian investors are using their TFSA contribution space to build tax-free retirement portfolios. One popular strategy involves buying top TSX dividend stocks and using the distributions to acquire new shares. This harnesses the power of compounding and can turn small initial investments into retirement fortunes.

Canadian National Railway

Canadian National Railway (TSX:CNR)(NYSE:CNI) has a current market capitalization of $113 billion. The business is unique in the North American rail sector due to the network of tracks that connects ports on three coasts. CN provides shipping services to domestic and international clients and is literally the backbone of the Canadian and U.S. economies.

CN just reported strong second-quarter (Q2) 2022 results with record revenues of $4.34 billion, up 21% from the same period last year. Operating income also hit a new peak at $1.77 billion, up 28%.

CN is making progress on its efforts to make the business more efficient. The adjusted operating ratio, which measures operating expenses as a percentage of revenue, came in at 59.3%. That's 2.6% better than Q2 2021.

Free cash flow for the first half of the year surged to $1.57 billion from $1.28 billion in the first six month of 2021. This bodes well for dividend growth in 2023. CN says it is on track to deliver 2022 free cash flow of $3.7-$4.0 billion. Investors received a 19% dividend increase for 2022. Another generous payout hike should be on the way next year.

The stock is off the 2022 lows but still looks attractive at the current share price near $163. Long-term holders of CN shares have done very well. A $20,000 investment in the stock 25 years ago would be worth almost $850,000 today with the dividends reinvested.

TD Bank

TD (TSX:TD)(NYSE:TD) currently looks oversold at $83 per share. The stock traded as high as $109 earlier this year. Investors sold off bank shares in recent months due to rising recession fears caused by high interest rates. An economic contraction is expected in 2023 or 2024, and this could slow down revenue and profit growth at TD and the other big Canadian banks.

It is true that surging interest rates designed to get inflation under control could have negative consequences for the banks. Consumers are already spending more of their money on basic goods and services and a jump in mortgage costs could lead to a wave of defaults.

That being said, TD and its peers should also see a boost in net interest margins as interest rates rise. This will help offset some of the negative effects of higher rates. TD built up significant excess cash to ride out the pandemic and gave investors a 13% dividend increase late last year, so management doesn't appear to be overly concerned about revenue and profits in the near term.

In fact, TD is on an acquisition spree in the United States. The bank is buying **First Horizon** for US$13.4 billion in a deal that will make TD a top-six bank in the American market. TD is also expanding its investment banking operations in the U.S. with an agreement to buy Cowen.

The current dividend provides a 4.3% yield.

A $20,000 investment in TD stock 25 years ago would be worth more than $350,000 today with the dividends reinvested.

The bottom line on top stocks to buy and build TFSA wealth

CN and TD are just two examples of top TSX stocks that have delivered great total returns for investors. The strategy of buying leading Canadian dividend stocks and using the distributions to acquire extra shares is a proven one for building retirement wealth. If you have some cash to put to work in a self-directed TFSA, these stocks deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:TD (The Toronto-Dominion Bank)

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