



TFSA Investors: How to Turn \$40,000 Into a \$740,000 Tax-Free Pension

Description

Canadian savers are using their Tax-Free Savings Accounts ([TFSAs](#)) to invest in top TSX stocks that pay growing dividends and offer a shot at substantial tax-free capital gains.

Power of compounding

One popular [investing strategy](#) for building a retirement portfolio involves buying quality dividend stocks and using the distributions to acquire new shares. This harnesses a powerful compounding process that can turn relatively modest initial investments into substantial savings for retirement down the road.

The best dividend stocks to buy for building long-term wealth tend to be the ones that have long track records of increasing their dividends every year. In addition, these stocks typically support the payout increases with rising revenue and growing profits. Market dips offer opportunities to add to the position at discounted prices.

Fortis

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) is a utility company with \$60 billion in assets located in Canada, the United States, and the Caribbean. The holdings include power-generation facilities, electricity transmission networks, and natural gas distribution businesses. These are primarily rate-regulated assets, meaning revenue and cash flow tend to be predictable and reliable.

Fortis grows through acquisitions and internal projects. The current \$20 billion development program is expected to increase the rate base by roughly a third to more than \$41.5 billion over a five-year period ending in 2026. Resulting cash flow growth is predicted to support targeted average annual dividend hikes of 6% through at least 2025. This is solid guidance in an era of economic uncertainty.

Fortis increased the dividend in each of the past 48 years. The current payout provides a 3.5% yield.

A \$20,000 investment in Fortis stock 25 years ago would be worth about \$350,000 today with the

dividends reinvested. Fortis offers a 2% discount on stock purchased using the dividend-reinvestment plan (DRIP).

BCE

BCE ([TSX:BCE](#))([NYSE:BCE](#)) has a current [market capitalization](#) of \$60 billion. The company provides mobile, internet, TV, and security services to homes and businesses across the country. BCE also has a media group that owns a television network, specialty channels, radio stations, and interests in sports teams as well as retail locations.

The Canadian communications giant has the balance sheet strength to make the investments needed to ensure its customers continue to have the broadband access they require across multiple platforms. BCE is spending \$5 billion in 2022 on its [5G](#) mobile network expansion and the continued rollout of its fibre-to-the-premises program.

BCE gets most of its revenue from essential internet and mobile services. This makes the revenue stream resilient during economic slowdowns. The media group took a hit during the pandemic, but it is bouncing back with a rebound in advertising spending.

BCE is targeting free cash flow growth of 2-10% in 2022. The board raised the dividend by at least 5% annually over the past 14 years, and investors should see a similar increase in 2023. BCE stock trades near \$65.50 at the time of writing compared to \$74 a few months ago. The stock appears oversold, and investors can take advantage of the dip to pick up a 5.6% dividend yield.

A \$20,000 investment in BCE stock 25 years ago would be worth about \$390,000 today with the dividends reinvested.

The bottom line on top stocks to buy for dividends and total returns

Buying top dividend stocks and using the dividends to acquire new shares is a proven investing strategy for building retirement wealth.

BCE and Fortis are just two examples of TSX stocks that have delivered solid long-term returns and should be solid picks for a diversified retirement portfolio. The TSX is home to many great Canadian dividend stocks that look undervalued today and have generated similar or even better returns.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:FTS (Fortis Inc.)
3. TSX:BCE (BCE Inc.)

4. TSX:FTS (Fortis Inc.)

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Date

2025/08/28

Date Created

2022/08/17

Author

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