How to Turn a $40,000 RRSP or TFSA Into $750,000

Description

Canadian Registered Retirement savings Plan (RRSP) and Tax-Free Savings Account (TFSA) investors are searching for good stocks to buy that can turn hard-earned savings into a nice nest egg for retirement. One popular investing strategy that can deliver attractive total returns involves buying top TSX dividend stocks and using the distributions to acquire new shares.

The process can normally be set up to occur automatically by using a company's dividend-reinvestment plan (DRIP). In some cases, the DRIP actually buys the new shares at a discount to the market price.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) raised its dividend in each of the past 48 years. That's an important ingredient for building wealth over time, as each dividend increase boosts the yield on the original investment. In addition, stocks with great track records of dividend growth tend to see their prices rise over time.

Fortis gets 99% of its revenue from regulated assets that provide essential services. These include power generation, electricity transmission, and natural gas distribution. The nature of the businesses means cash flow is relatively predictable and reliable. Management can therefore plan capital expenditures and dividend increases through volatile economic conditions.

Fortis is currently working on a $20 billion capital program that will increase the rate base by about a third to more than $41 billion by the end of 2026. The resulting increase in cash flow is expected to support targeted average dividend hikes of 6% per year through 2025. Fortis offers a 3.6% dividend yield at the time of writing. The DRIP provides a 2% discount on stock purchased using the dividends.

Fortis is a good stock to buy if you are looking for a defensive stock to add to your portfolio.

Long-term Fortis investors have enjoyed solid total returns. A $20,000 investment in Fortis stock 25 years ago would be worth more than $350,000 today with the dividends reinvested.

BCE

BCE (TSX:BCE)(NYSE:BCE) generally finds favour with retirees and other investors who are seeking high-yield passive income. The generous dividend provides a 5.7% yield right now, and BCE raised the payout by at least 5% annually for the past 14 years.

A quick look at the stock chart, however, also shows that BCE is a good stock to own for total returns. In fact, a $20,000 investment in BCE shares just 25 years ago would be worth almost $400,000 today with the dividends reinvested.

BCE is a giant in the Canadian communications industry with a market capitalization of $59 billion. The company has the balance sheet strength to make significant investments in new network infrastructure to defend its wide competitive moat. BCE is investing $5 billion in 2022 on the expansion of the 5G mobile network and expects to directly connect 900,000 clients to fibre optic lines this year.

BCE is a good stock to buy for investors seeking stocks they can simply own for decades without having to check the share price every week.

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

Fortis and BCE are just two examples of quality dividend-growth stocks that can help investors build retirement wealth. The pullback in the TSX this year is giving investors a chance to buy many top Canadian dividend stocks at cheap prices for a self-directed retirement portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

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

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