Retire at 55: How to Turn a $60,000 TFSA or RRSP Into $970,000

Description

Young investors with a modest Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) portfolio can still hit their goal of early retirement. One popular investing strategy that has helped many Canadian investors quit work in their 50s involves buying quality dividend-growth stocks and using the distributions to buy new shares.

The power of compounding is a marvelous tool for building a retirement fund. Let's take a look at two top TSX dividend stocks that look cheap to buy today and see how it works.

BCE

BCE (TSX:BCE)(NYSE:BCE) is Canada's largest communications company with a market capitalization of close to $60 billion. The company's size gives it the financial capacity to make the billions of dollars of investments required to protect its wide competitive moat.

BCE has a $5 billion capital program on the go in 2022 that will see the business run fibre optic lines to the premises of 900,000 customers. The company is also expanding its 5G network after spending $2 billion on new 3,500-megahertz spectrum at the auction last year.

Despite the large capital outlays, BCE still generates adequate free cash flow to fund the generous and growing dividend. BCE raised its dividend by at least 5% in each of the past 14 years. The payout provides a 5.75% yield at the current share price of $64.

BCE stock is good to buy for TFSA and RRSP investors who want a defensive pick in the current economic environment.

A $30,000 investment in BCE just 25 years ago would be worth about $590,000 today with the dividends reinvested.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) trades for $73.50 per share at the time of writing. That's down from the 2022 high of $95. All of the bank stocks have come under pressure in recent months amid rising fears that a recession is on the way in 2023.

An economic downturn will impact revenue and profit growth at the banks and there is a risk that soaring interest rates could send the housing market into a nasty tailspin. If unemployment jumps in a meaningful way, and mortgage rates remain at or above current levels for a few years, there is a risk that defaults will surge, especially if property prices fall to the point where the money owed exceeds the value of the house or condo.

While this is possible, economists broadly expected a mild and short recession, and the pullback in house prices probably won't completely retrace the pandemic gains. Under the anticipated scenario, the banks should be fine.

Bank of Nova Scotia remains very profitable, and the dividend should continue to grow. At the current share price BNS stock trades at just 8.8 times trailing 12-month earnings. That's getting into bargain territory, even considering the economic headwinds. Investors who buy the stock at the current level can get a solid 5.6% dividend yield.

A $30,000 investment in Bank of Nova Scotia 25 years ago would be worth almost $380,000 today with the dividends reinvested.

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

The market pullback is giving TFSA and RRSP investors a chance to buy many top TSX dividend stocks at undervalued prices. BCE and Bank of Nova Scotia are just two Canadian stocks that have generated solid long-term returns and pay generous dividends that should continue to grow.

If you have some cash to put to work, these stocks look cheap and deserve to be on your radar for a buy-and-hold retirement fund.

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