RRSP and TFSA Investors: How to Turn $25,000 Into $475,000

Description

The market correction is giving Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA) investors a chance to buy top Canadian stocks at discounted prices for buy-and-hold retirement portfolios. One popular RRSP and TFSA investing strategy for producing solid total returns involves buying reliable dividend-growth stocks and using the distributions to acquire new shares.

Power of compounding

We all know how a snowball is rolled to make a snowman. The same compounding process is commonly used to build wealth using dividend stocks.

Investors can take advantage a company's dividend-reinvestment plan (DRIP) to automatically allocate each dividend payment to acquire more shares. This generates additional dividends on the next distribution that can buy even more shares. The compounding process is slow at the start but can turn a relatively modest initial investment into a significant pile of savings over time. This is particularly true when the dividend increases regularly and the share price appreciates.

The best dividend stocks to buy tend to have long track records of delivering dividend growth supported by rising revenue and higher profits.

TD Bank

TD (TSX:TD)(NYSE:TD) reported decent fiscal third-quarter (Q3) 2022 earnings in a challenging environment and is on track to top the strong full-year 2021 results. In fact, TD generated $11.36 billion in adjusted net income in the first nine months of fiscal 2022 compared to $10.78 billion in the same period last year.

Investors, however, are worried that a recession could hit bank stocks in 2023 and have dumped TD in recent months. TD stock currently trades near $85.50 per share compared to $109 in early 2022.

Near-term volatility should be expected, and TD’s share price could certainly slip back to the July low around $77. That being said, the stock already looks oversold, and retirement investors might want to start nibbling.

Why?

TD is in the process of closing two significant U.S. acquisitions that will help drive future growth. The purchase of **First Horizon** for US$13.4 billion will make TD a top-six bank in the United States. In addition, TD is bulking up its capital markets capabilities with the US$1.3 billion acquisition of **Cowen**.

TD is one of the best dividend-growth stocks in the **TSX Index**. The board raised the distribution by a compound annual rate of about 11% over the past 25 years. TD increased the distribution by 13% late in 2021, and investors should see a generous payout hike for fiscal 2023. At the time of writing, TD provides a 4.1% dividend yield.

TD is a good stock to buy for investors who want exposure to the U.S. economy through a top Canadian company.

Long-term investors have done well holding TD stock. A $25,000 investment in TD shares 25 years ago would be worth about $475,000 today with the dividends reinvested.

The bottom line on top stock stocks to buy for total returns

TD is a good example of a top TSX dividend stock that has generated great long-term total returns for retirement investors.

There is no guarantee that TD’s shares will deliver the same performance in the future, but the stock still deserves to be in the portfolio. The strategy of buying great dividend stocks and using the distributions to acquire new shares is a proven one for building retirement wealth.

The TSX is home to many top dividend stocks that look cheap today. If you have some cash to put to work in a TFSA or RRSP focused on total returns, this stock deserves to be on your radar.

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