



TFSA: Invest \$30,000 in 2 Stocks and Get \$300,000 + \$16,000 in Passive Income

Description

Albert Einstein said, “Compound interest is the eighth wonder of the world. He who understands it earns it; he who doesn’t, pays it.” At the Motley Fool, we encourage our readers to earn this interest by various means. Dividend reinvestment is one of the ways in the stock market investors can behold the power of compounding.

The power of compounding can convert \$30,000 to \$300,000

Your first \$30,000 investment makes money through capital appreciation and dividend income. By enrolling in a dividend-reinvestment plan (DRIP), the money that your money made makes more money. It is like a snowball that grows into a larger one as you roll it down the hill.

If the stock price falls while the dividend amount remains unchanged, your dividend income can buy more DRIP shares. A \$100 dividend can buy two DRIP shares worth \$50 or three DRIP shares worth \$33.3.

This compounding effect can convert \$30,000 to \$300,000. You can make your returns tax free through a Tax-Free Savings Account ([TFSA](#)). Your \$30,000 is taxable at the time of investment, but the \$270,000 compounding interest plus any cash dividends will be exempt from tax.

Two stocks to build your compound interest TFSA portfolio

To unleash the true power of the DRIP, select [Dividend](#) Aristocrats that have long histories of paying and growing dividends regularly. Here are two stocks that are perfect for your compounding interest portfolio.

TC Energy stock

TC Energy ([TSX:TRP](#))([NYSE:TRP](#)) is a pipeline stock with a rich history of paying regular dividends

for more than 22 years. It increased its dividend per share at a compounded annual growth rate (CAGR) of 7% from \$0.8 in 2000 to \$3.6 in 2022. During this period, its stock price grew at a CAGR of 10%.

If you'd invested \$15,000 in TC Energy's DRIP in September 2000, the amount would have compounded to around \$249,000. This calculation assumes TC Energy continued to reinvest dividends for all 22 years.

TC Energy transmits oil and natural gas within Canada and facilitates their export. It earns toll money for transmission. The addition of new pipelines increases cash flows, which it uses to repay debt, fund new projects, and pay dividends. Its 670 km Coastal GasLink natural gas pipeline project came into the limelight, as the Europe energy crisis is driving demand for liquefied natural gas (LNG).

TC Energy stock is nearing the oversold category because of this week's selling activity. Now is the time to buy the stock at a cheaper rate and lock in a 5.69% dividend yield.

Canadian Utilities

Canadian Utilities ([TSX:CU](#)) is an energy infrastructure company that generates, transmits, and stores electricity and natural gas. It even sells energy to homes, businesses, and industries. This infrastructure generates regular cash flow for the company. It has been using this cash flow to pay regular dividends for [40 years](#) and grow them for the last 28 years at a CAGR of 11%.

If you'd invested \$15,000 in Canadian Utilities's DRIP in September 2000, the amount would have compounded to around \$160,000. The company will continue to grow dividends in the coming decade, as demand for electricity continues to rise.

Canadian Utilities's stock price is generally range bound. It is a stock worth buying the dip on, as you can lock in a higher dividend yield and a 25-30% capital appreciation. The stock is currently trading above \$40, which is closer to its 52-week high. You could wait for it to fall below \$35 to invest \$15,000.

Foolish takeaway

The above two stocks can still convert \$30,000 into \$300,000 in 22 years. If you retire after 22 years, you can convert DRIP into cash dividends and enjoy a higher passive income from a higher share count. A \$30,000 investment in the above two stocks in 2000 would have fetched you around \$1,450 in annual cash dividends. The dividend growth and DRIP compounded this income to \$16,000 in 2022. And all this income is tax free in TFSA.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:CU (Canadian Utilities Limited)

3. TSX:TRP (TC Energy Corporation)

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