How to Turn a $10,000 RRSP or TFSA Into $179,000 for Retirement

Description

Canadians are using their Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) contribution room to build portfolios holding top dividend stocks for a retirement fund. The market correction in 2022 is giving investors a chance to buy great TSX dividend stocks at cheap prices.

TD Bank

TD (TSX:TD)(NYSE:TD) trades near $88 per share at the time of writing compared to $108 back in February. The drop is part of a broad-based selloff that hit Canadian bank stocks in recent months, as investors started to worry about the threat of a recession next year.

Economists are increasingly predicting a short and mild recession triggered by the Bank of Canada's aggressive interest rate hikes designed to bring inflation back down to the target rate of 2%. Inflation in Canada is currently running above 7%. This is putting pressure on households, as people are forced to use savings or shift discretionary spending to pay for rising food, gas, and utility costs.

Soaring interest rates will eventually hurt businesses and could send the housing market into a tailspin. In the event a recession proves to be deeper and longer than expected, there is a risk that a jump in unemployment could trigger a wave of loan defaults.

For the moment, the jobs market remains robust, and savings built up during the pandemic are expected to mitigate the severity of an economic downturn.

TD remains very profitable and is taking steps to drive future growth. The bank is on track to top its 2021 earnings this year. It is making two acquisitions in the United States that will significantly increase its presence in the American market. TD is buying **First Horizon**, a retail bank, for US$13.4 billion. The deal will add more than 400 branches and make TD a top-six bank in the United States. TD is also buying **Cowen**, an investment bank, for US$1.3 billion.

TD has raised the dividend by 13% for 2022. Investors should see another double-digit increase for fiscal 2023. TD's compound annual dividend-growth rate over the past quarter century is about 11%. That's the kind of steady distribution expansion TFSA and RRSP investors want to see, whether they are targeting passive income or total returns.

Buying TD stock on a big dip has historically proven to be a profitable decision. Additional weakness could certainly occur in the near term, but the stock should move higher over the long haul. A $10,000 investment in TD stock 25 years ago would be worth about $179,000 today with the dividends reinvested.

The bottom line on top stocks to buy for a TFSA or RRSP

There is no guarantee that TD will generate the same results in the future, but the strategy of buying top dividend stocks and using the distributions to acquire new shares is a proven one for building retirement wealth.

TD is just one example of a great TSX dividend stock that has delivered strong total returns over the years and currently trades at an attractive price. The Canadian market is home to many leading dividend-growth stocks that currently look oversold and deserve to be on your radar for a diversified TFSA or RRSP portfolio.

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