TFSA Wealth: How Top Dividend Stocks Can Turn $10,000 Into $185,000

Description

The market pullback is giving TFSA investors a chance to buy great Canadian dividend stocks at cheap prices.

One popular strategy for building retirement wealth involves owning top dividend stocks and using the distributions to buy new shares. This sets off a powerful compounding process that can turn relatively small initial investments into significant retirement savings over time.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) trades near $51.50 per share at the time of writing compared to more than $59.50 a few months ago. The stock looks oversold right now and investors can pick up a 6.7% dividend yield.

Enbridge is good stock to buy for TFSA passive income, but long-term investors who have used the generous dividend to buy new shares have enjoyed attractive total returns. In fact, a $5,000 investment in Enbridge stock 25 years ago would be worth about $100,000 today with the dividends reinvested.

Looking ahead, investors should see steady dividend growth continue at a rate of 3-5% per year over the medium term supported by the current $13 billion capital program. Enbridge is big enough that it can also make meaningful strategic acquisitions to drive additional cash flow.

The rebound in the energy sector is expected to continue as global demand rises for Canadian and American oil and natural gas. Enbridge is positioned to benefit. The company owns an oil export terminal in Texas and recently announced a deal to take a 30% position in the Woodfibre liquified natural gas (LNG) project in British Columbia.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) trades for $123 per share at the time of writing. The stock was close to $150 at one point in early 2022.

Bank stocks are falling due to the increased threat of a recession next year. Royal Bank's own analysts expect a mild and short recession in Canada in 2023. The Bank of Canada and the United States Federal Reserve are aggressively increasing interest rates in an effort to cool off the economy and drive down inflation. There will be a period of time where inflation remains elevated, and rates will be high. This is a nasty combination for households who are already using discretionary income and savings to buy food and gasoline. As mortgage rates increase, household budgets could be pushed to the brink. If the economy goes into a deep slump the jobs market could reverse course. In that scenario, the banks would likely see loan growth stall and loan losses rise.

Despite the headwinds, the anticipated outcome is a relatively soft landing for the economy and a controlled decline in the housing market. At the current share price, Royal Bank appears oversold, and investors can pick up a decent 4.1% dividend yield.

Patient Royal Bank investors have received solid total returns. A $5,000 investment in RY stock 25 years ago would be worth about $85,000 today with the dividends reinvested.

The bottom line on top stocks to buy for total returns

Enbridge and Royal Bank pay attractive dividends that should continue to grow. There is no guarantee future returns will be the same, but the strategy of owning a balanced portfolio of top dividend stocks and using the distributions to buy new shares is a proven one for building wealth.

If you have some cash to put to work in a TFSA retirement portfolio, these stocks look cheap right now and deserve to be on your radar.

CATEGORY

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:ENB (Enbridge Inc.)
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