Retire Young: How to Turn a TFSA or RRSP Into $1 Million

Description

TFSA (tax-free savings account) and RRSP (registered retirement savings plan) holders can invest in stocks for retirement to multiply their money fast by the time they retire. In fact, long-term investing with proper planning in some fundamentally strong stocks could even help you retire early. However, the biggest obstacle TFSA and RRSP investors face is that they don't usually have enough time to track day-to-day market news or read analytical stock reports. Be assured, smart investors do their research to pick quality stocks suitable to their risk appetite.

Retire early by investing in stocks using a TFSA or RRSP

Stock investing doesn't always have to be a labourious or time-consuming task. Long-term investors can find many opportunities, depending on their risk appetite and financial goals.

And the truth is you don't actually need to regularly pay attention to market news to expect outstanding returns. Instead, you can use your TFSA or RRSP money to invest in stocks for the long haul. By holding stocks long term, investors can safely ignore the short-term market noise. After all, temporary economic and market cycles might not have a major impact on your returns in the long run. Here's an easy example of how you can turn your hard-earned TFSA or RRSP savings into $1 million and more to retire young.

How to turn a TFSA or RRSP into $1 million

When investing in stocks with early retirement goals, you should ideally divide your portfolio into two parts. The first part, consisting of at least 80% to 85% of your total stock portfolio, should be invested in reliable dividend stocks. Dividends, together with stock appreciation, can help you safely and steadily grow your money.

Let's say, for example, you've saved $100,000 towards your retirement in your TFSA or RRSP over the years. In that case, I'd recommend investing around $85,000 in safe Canadian dividend stocks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) or **Enbridge**. And the best part is that you don't need to do tonnes of research and analysis to pick such top stocks. These stocks are among the top players in their respective industries.

The power of compounding

Back to our example. Let me show the power of dividend reinvestment and compounding over the long term. If you invested that $85,000 in Royal Bank's stock at the end of 2002, your money would have turned into well over $1 million by now. Notably, in the five years between 2016 and 2021, the largest Canadian bank has raised its dividends by about 33%. This dividend growth clearly reflects the underlying strength in its balance sheet and resilient cash flows. I expect its stock to continue yielding such outstanding returns in the future as well. Future growth will be driven by the Royal Bank's well-diversified revenue sources and consistently expanding business. But instead of relying on a single stock, you may want to diversify your portfolio by investing in multiple stocks from various sectors.

There's one more step if you want to grow your wealth faster for early retirement. You should also consider investing the remaining part of your portfolio in some quality growth stocks and hold them for at least 5 to 10 years. Growth stocks like **Shopify**, **Lightspeed**, and **Aritzia** could give your portfolio a boost. Mind you, they do involve relatively higher risks in the short-term due to their high volatility. However, growth stocks can multiply your savings relatively sooner than defensive dividend stocks in the long term – especially if you buy them at a bargain.

CATEGORY

1. Bank Stocks
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TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
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