New Investors: How to Turn a $20,000 TFSA or RRSP Into $340,000

Description

The market correction is giving new investors an opportunity to buy great Canadian dividend stocks at oversold prices. One popular strategy for building Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) wealth involves buying a variety of top dividend stock and using the distributions to buy even more shares.

Power of compounding

Many companies have dividend-reinvestment plans (DRIP) in place that automatically use the dividends to buy new stock. Some even give investors a discount of up to 5% on the new shares that are purchased using the payouts. Each new share that is added to the holdings will increase the amount of dividends paid on the next distribution. The process is slow at the start, but over time it can snowball into a significant pile of money. This is called the power of compounding, and harnessing the strategy has made some investors quite rich.

Stocks that raise their dividends regularly are normally the best ones to own. The dividend growth not only speeds up portfolio expansion, but it also tends to support a rising stock price over the long haul. Reinvesting dividends also takes advantage of market pullbacks to add more shares at cheaper prices.

Fortis

Fortis (TSX:FTS) raised its dividend in each of the past 48 years. This is a great achievement considering the ups and downs of the economy and some serious market volatility. Looking ahead, investors should see more of the same performance. Fortis intends to increase the dividend by an average of 6% per year through at least 2025. A $20 billion capital program will support the distribution growth.

Fortis stock looks oversold today near $49 per share. Investors can get a 4.6% dividend yield and simply wait for the payout increases to boost the initial yield. Fortis has a DRIP in place that gives investors a 2% discount on the new stock purchased using the dividends.

Long-term investors have done well owning Fortis stock. A $10,000 investment in the utility company 25 years ago would be worth about $140,000 today with the dividends reinvested.

Enbridge

Enbridge (TSX:ENB) is another top stock with a solid track record of delivering dividend growth and total returns. The board increased the dividend in each of the past 27 years, and investors should see the payout rise by 3-5% annually over the medium term. Enbridge is working on a $13 billion secured capital program and is making small strategic acquisitions to boost revenue and cash flow growth.

Enbridge stock trades near $49 per share at the time of writing compared to $59 in June. The pullback appears overdone, and investors can now lock in a 7% dividend yield.

A $10,000 investment in Enbridge 25 years ago would be worth about $200,000 today with the dividends reinvested.

The bottom line on top stocks to buy for total returns

Fortis and Enbridge are good examples of how investors can build long-term wealth by using dividends to buy new shares. There is no guarantee these stocks will deliver the same returns in the next 25 years, but they look attractive today at their current prices and deserve to be part of a diversified retirement portfolio.

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aswalker