How to Turn a $10,000 TFSA or RRSP Into $220,000

Description

Canadian savers are using their Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) to build self-directed portfolios to fund a comfortable life in retirement. One popular investing strategy involves buying a diversified basket of top TSX dividend stocks and using the dividends to buy more shares through a company's dividend-reinvestment plan (DRIP). This triggers a compounding process that can turn small initial investments into substantial savings over time.

DRIP benefits

Companies use a DRIP as a way to retain cash that would otherwise be paid out as dividends. The DRIP gives investors an opportunity to automatically buy more shares of the company without incurring a transaction charge. In some cases, the business provides a discount of up to 5% on the purchase price of the shares acquired using the DRIP. Each new share that is added subsequently increases the total dividend payout on the next distribution. The compounding process starts out slowly, but can have a major impact over time. It's similar to the effect of rolling a snowball to build a snowman.

The best stocks to buy tend to be ones with long track records of steady dividend growth.

Enbridge

Enbridge (TSX:ENB) just reported solid third-quarter (Q3) 2022 results, extending a strong performance this year. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) in the quarter came in at $2.27 billion compared to $1.9 billion in the same period last year. For the first nine months of 2022, adjusted EBITDA was $6.58 billion compared to $5.62 billion in 2021.

The rebound in oil and natural gas demand is expected to continue for several years. Global buyers are keen to secure reliable supplies from Canada and the United States. Enbridge has extensive oil and natural gas pipeline infrastructure in the two countries and is investing in export assets to drive revenue growth. The company purchased an oil export terminal in Texas last year for US$3 billion. In addition, Enbridge has agreed to take a 30% stake in the $5.1 billion Woodfibre liquified natural gas (LNG) facility being built in British Columbia.

Enbridge is expanding existing natural gas pipeline networks to accommodate rising fuel demand and is also growing its renewable energy portfolio.

The secured capital program now stands at $17 billion. This should drive steady revenue and cash flow growth in the next few years.

Enbridge pays a quarterly dividend of $0.86 per share. That’s good for an annualized yield of 6.3% at the current share price. The board raised the dividend in each of the past 27 years.

Long-term investors have done well with ENB stock. A $10,000 investment in Enbridge 25 years ago would be worth $220,000 today with the dividends reinvested.

The bottom line on building retirement wealth

Enbridge is a good example of a top dividend-growth stock that has generated attractive total returns for investors who use the dividends to buy new shares. There is no guarantee Enbridge will deliver the same results in the future, but the stock still deserves to be part of a balanced retirement fund.

The TSX is home to many great dividend stocks that now appear oversold and look attractive to buy for a diversified TFSA or RRSP portfolio.

CATEGORY

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