Retirement 101: How to Turn a $10,000 TFSA or RRSP Into $145,000

Description

The market correction is giving Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) investors a chance to buy discounted TSX dividend stocks for retirement portfolios targeting total returns.

One popular investment strategy involves using dividends to buy new shares. This takes advantage of a powerful compounding process that can turn small initial investments into large savings over time. Many companies even offer a dividend-reinvestment plan (DRIP) that automatically invests the distributions in new shares. Some offer a discount up to 5% on the purchase of the new stock.

TD Bank

TD (TSX:TD) trades for close to $89 per share at the time of writing compared to $109 earlier this year.

The steep decline is due to rising fears that a recession is on the way in 2023 or 2024 and might be more severe than currently anticipated by economists. The Bank of Canada is raising interest rates aggressively to try to cool off the economy and get inflation under control. Soaring interest rates are driving up mortgage costs, and that could potentially trigger a crash in house prices if too many property owners can't cover the jump in loan payments.

In the worst-case scenario, thousands of house and condo owners will be forced to hand the property over to the banks. As prices plunge, the banks could be stuck trying to unload them for less than the amount that is owed.

For the moment, economists are calling for a short and mild recession. This should keep job losses from getting out of control. As long as people are still employed, most will find a way to get through a period of higher mortgage costs and be able to keep their homes.

Assuming that is the way things are going to go, TD stock currently looks oversold.

Buying TD on dips has historically proven to be a savvy move for patient investors. A $5,000 investment in TD stock 25 years ago would be worth about $77,000 today with the dividends reinvested.

Fortis

Fortis (TSX:FTS) recently raised its dividend for the 49th consecutive year. The utility company owns $64 billion in assets across Canada, the United States, and the Caribbean. Operations include power generation, electricity transmission, and natural gas distribution businesses. These are largely regulated, meaning revenue and cash flow tend to be steady and predictable.

Fortis is working on a $22.3 billion capital program that is expected to support ongoing dividend growth of 4-6% per year through 2027.

Fortis stock trades near $53 per share at the time of writing compared to $65 earlier this year. The drop gives investors a chance to pick up a 4.25% yield and wait for the future payout increases to boost the return on the initial investment.

A $5,000 investment in Fortis stock 25 years ago would be worth about $68,000 today with the dividends reinvested.

The bottom line on top stocks to build retirement wealth

TD and Fortis are good examples of top TSX dividend stocks that have generated solid total returns for patient investors. There is no guarantee future returns will be the same, but these stocks look undervalued today, and the strategy of buying top dividend stocks and using the distributions to acquire new shares is a proven one for building retirement savings.

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aswalker