Build Your TFSA With The Bank of Nova Scotia and Shaw Communications Inc.

Description

The TFSA is, without a doubt, the greatest financial tool available to Canadian investors.

Unlike RRSPs, which only defer tax, TFSAs allow in investor to contribute $5,500 each year into a true tax avoidance plan. It doesn't matter if you double your money each year, you're not paying any tax on it. Plus, the money in a TFSA is flexible. Investors can withdraw their cash whenever they'd like and not have to worry about paying the tax man.

Even though the TFSA is the perfect account for investors to use for holding stocks, there are way too many Canadians that are using the account to hold more conservative assets, like cash or GICs. According to a bank survey in 2013, 80% of Canadians were holding either cash or GICs in their TFSAs. Just 14% of Canadians were using their TFSA to hold individual stocks, while 5% invested in ETFs.

Most Canadians cannot afford to have money sitting in a savings account or a GIC, earning less than 1% interest. We just don't have the savings rate for that. Plenty of us aren't saving enough for retirement as it is, a sin that is doubly compounded when money set aside for investing loses out on returns it could be earning invested in some of Canada's biggest companies. Opportunity costs are very real.

If an investor starts early enough and is smart enough to let their TFSA compound over 35 years, they could see a TFSA worth over a million dollars. Here's how.

Invest in two of Canada's best

Let's assume that an investor is 30 years old, and has saved up $10,000. After careful research, she decides to split her investment equally between **The Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS) and **Shaw Communications Inc.** (TSX: SJR.B)(NYSE: SJR).

She chose Bank of Nova Scotia for a couple of reasons. The company is making good inroads with its Latin American business, which should continue to be a solid growth area over the long term. The company also is a good operator in Canada, boasting a strong lending business, a solid wealth management side, and attractive credit card offerings.

Shaw Communications is an equally easy choice. Our hypothetical investor bundles her home phone, internet, and television offerings through the company. Each year she notices her bill goes up a 3-5%, but she’s powerless to do anything about it. Because we’re so addicted to television and the internet, they’ve become a must have utility.

Over the past 15 years, Bank of Nova Scotia has delivered investors an annualized return of 13.3%, including dividends. Shaw Communications hasn’t done quite as well, but it returned exactly 10.0% since October 1999. Both these stocks should be able to maintain these returns on an ongoing basis.

The results

Instead of just investing her $10,000, let’s assume that our investor adds an additional $100 per month to her savings, using that cash to continue investing in both Shaw and Bank of Nova Scotia. She continues investing for 35 years, finally ready to retire at 65.

She takes a look at her TFSA. Thanks to the power of compound interest, she’d be looking at a pretty secure retirement. Her account would be worth $1,005,924. And since it’s in a TFSA, she wouldn’t have to worry about paying any tax on it either.

Here’s where it gets really good. Since those stocks should continue to yield approximately 4% when it’s time to start drawing down the investment, our investor is looking at earning $40,000 each year in tax-free dividends, all without touching the principal. She could spend the dividends, sell a few shares if needed, and let the rest continue to compound, further securing her retirement.

It really is that simple. You need to start investing today. Here are three more stocks to get you started.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:SJR (Shaw Communications Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:SJR.B (Shaw Communications)

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