

## Become a TFSA Millionaire With Bank of Montreal and Toronto-Dominion Bank

### Description

The TFSA is perhaps the most powerful savings tool available to the average Canadian, especially after the federal government raised the annual contribution limit to \$10,000.

In an era where workplace pensions are virtually nonexistent for anyone but management, it's doubly important for the average Canadian worker to take advantage of any perks they might get. And for most people, the advantages don't get much better than putting away \$10,000 annually into a TFSA, an investment that will never be taxed.

I think many Canadians should even contribute to their TFSAs before topping up their RRSP, simply because of the tax benefits. RRSPs defer taxes, while TFSAs avoid them altogether. Imagine being 65 and retired, while collecting enough in dividends and interest from your TFSA to live comfortably without paying a nickel of taxes. Unless the rules change, that looks to be very possible in the future.

For many Canadians, the thought of eventually accumulating \$1 million in their TFSAs is the ultimate goal. But is that even realistic? Let's take a closer look.

### The path to \$1 million

Let's assume that we have a 25-year-old Canadian who is just starting their TFSA journey. They have enough capital to put aside \$7,000 per year inside of their TFSA. After 40 years, that's a contribution of \$280,000, which is a pretty good chunk of change. What sort of return would be needed to accumulate \$1 million by the time they hit a traditional retirement age?

It turns out it's not very hard. To grow \$7,000 annually into \$1 million in 40 years, all it would take is 5.25% annually. I'm confident just about everyone reading this could invest successfully enough to be able to accomplish that.

Unfortunately, it's not quite that simple. Because of inflation, a \$1 million TFSA will only be worth about \$500,000 in today's money in 40 years. While a \$500,000 nest egg is nothing to sneeze at, I think most people reading this would like a little more security. So, let's assume that we'll need a TFSA worth \$2 million to equate the purchasing power of \$1 million today.

That's where it gets a little tougher. To turn \$7,000 per year into \$2 million over 40 years, investors will need to average 7.85% annually. That's certainly not impossible, but it's a little more difficult than getting to \$1 million.

### Buy the banks

Now comes the hard part. What kind of stocks can you invest in that will get you the types of returns needed to make it to \$2 million?

I have a simple suggestion: *buy the banks*.

Specifically, I like **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) and **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). TD Bank has nice U.S. exposure, almost to the point where the company's U.S. earnings are surpassing its Canadian ones. TD also enjoys a nice position in the Canadian retail banking market, and is among the leaders in every relevant category from mortgages to deposits on hand.

Bank of Montreal, meanwhile, is one of the smaller of the so-called Big Five. The stock trades at an attractive price-to-earnings ratio of just 12.2, and sports one of the highest dividends in the sector, yielding 4.15%. It also has U.S. exposure through its subsidiary in the Midwest states, which has more than 600 branches.

In the past 15 years, both banks have performed well. TD Bank is up nearly 10.5% annualized, which includes reinvested dividends. Bank of Montreal has done even better, rising 10.8% annually when an investor reinvests dividends.

There's no guarantee that these returns can continue over the next decades, of course. But when I look at the long-term trends, the potential for disruption of the banking industry is low. People are still going to need loans and safe places to store their cash, even in a world where more transactions are done online.

Canada's banks will face problems in the upcoming decades. But if history is any indication, they'll power through those problems and come out in even better shape on the other side. If you're looking for a dependable choice for your TFSA, there are certainly worse places to park your cash than TD Bank or Bank of Montreal.

## CATEGORY

1. Bank Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BMO (Bank Of Montreal)
4. TSX:TD (The Toronto-Dominion Bank)

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