



Become a TFSA Millionaire With Bank of Nova Scotia and Saputo Inc.

Description

The tax-free savings account (TFSA) is a remarkably powerful savings tool that average investors don't utilize nearly as well as they should.

As it stands right now, anybody who was 18 years of age or older on January 1, 2009, has been able to contribute \$46,500 to their TFSA. The contribution limit for most of those years was \$5,000, up until 2013 when the government raised the limit to \$5,500.

And 2015 was a banner year for Canadian investors, when the ruling Conservative Party temporarily increased the TFSA limit to \$10,000. After Prime Minister Justin Trudeau and his Liberal Party wrestled control of Parliament from the Conservatives, 2016's contribution shrunk back to \$5,500, much to the chagrin of Canadian savers.

Even after the decrease, the TFSA is still the savings vehicle of choice for many Canadians. It has many advantages over RRSPs, including the ability to take money out of the account easily, and the assurance that gains will never be taxed. It's gotten to the point where people use the TFSA exclusively for their retirement savings.

These folks should be in good shape, provided they follow a few rules. All these savers need to do is continue to max out contributions, don't make any ill-timed withdrawals, and invest in great stocks with a history of outperformance. If they can do those three things, they should be able to retire at age 65 with accounts easily worth more than \$1 million.

Which stocks?

As far as I'm concerned, investors should stuff their TFSAs full of "one decision" stocks. These are companies that you buy with the intent of never selling.

Naturally, one of those choices should be one of Canada's banks. The banking industry continues to dominate, shrugging off concerns like low oil prices and a potential housing bubble.

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) is an interesting choice today. Over the last year,

compared with its peers, the company has underperformed, posting a small loss of 3.8% per share. Investors are mostly concerned with its exposure to places like Colombia, a region that has been hit hard by oil's decline.

Underlying results continue to be fine. The company has posted a profit of \$5.75 per share over the last 12 months, putting shares at less than 11 times trailing earnings. Loan-loss provisions have been kept in check, and the recent recovery in oil has been good news.

Bank of Nova Scotia pays one of the best dividends in Canada today. The current yield of 4.6% is good, and the dividend growth has been fantastic, averaging nearly 10% per year since the 2008-09 financial crisis.

Saputo Inc. ([TSX:SAP](#)) is another company with a history of outperformance. After it dominated the dairy business in Canada, it turned its focus international, making acquisitions in the United States, Argentina, and, most recently, Australia. Other potential targets include further forays into the U.S., Brazil, or New Zealand.

Shares have recovered nicely after a cheese surplus hurt margins during the summer of 2015. Earnings are projected to increase to \$1.79 per share for the company's fiscal 2017, which puts shares at a forward price-to-earnings multiple of 23.1. That's expensive, but not especially so for a stock with so much growth potential.

Great historical performance

Over the last decade, both Bank of Nova Scotia and Saputo have performed well. If we include reinvested dividends, an investment in each would have increased by 7.99% and 19.64% annually, respectively. Let's assume both of these stocks can combine for a 8% return going forward to be a little conservative.

If an investor takes the \$46,500 of allowable TFSA room and adds \$5,500 per year to it, a return of 8% annually would give us a nest egg worth more than \$2.5 million in 40 years. Even if we decrease the total return to 6% annually, we still get a final result of nearly \$1.4 million in tax-free cash.

Millennial investors really need to start taking advantage of their TFSAs today. It's that simple.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:SAP (Saputo Inc.)

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/09/11

Date Created

2016/05/13

Author

nelsonpsmith

default watermark

default watermark