



How to Build a \$1 Million TFSA

Description

Many savers are increasingly choosing to max out their TFSA before moving to their RRSPs.

These investors are attracted to a TFSA's flexible withdrawal privileges, which lets someone take cash from the account without paying tax. As the account grows and the owner gets older, those tax-free withdrawals will become all the more valuable. Remember, any cash siphoned from a RRSP is subject to regular tax rates.

Many investors also don't make enough to really take advantage of the biggest RRSP advantage, which is tax deferral. If you're languishing in the 15% or the 20.5% tax bracket, there's an argument to be made that RRSP room should be saved for future years when you'll be up to the 26% or 29% bracket.

There's only one problem with the TFSA: savers can only put \$5,500 per year into the account versus a much higher maximum for RRSPs. This limitation makes many feel like they'll never accumulate enough wealth to retire using just their TFSA.

These folks are wrong. Here's how anyone can get their TFSA up to \$1 million or even more—much more.

Max it out

The current TFSA limit is \$46,500, provided you turned 18 before January 1, 2009.

Many of you reading this likely have maxed out your TFSA annually, taking advantage of the account. But others haven't for a number of different reasons.

There's no time like the present to start. Say you were able to scrape together enough to max out your TFSA today, continuing to do so each year. Let's also assume the limit stays at \$5,500 and you can get an 8% return—a reasonable expectation.

After 30 years of investing, your TFSA would be worth \$1.14 million. After 40 years, it would be worth

\$2.55 million. And after 50 years, it would balloon in value to \$5.59 million.

Patience

The previous example made it pretty clear. A TFSA that is left alone to compound can be a very valuable thing.

It's not easy to leave such an investment alone. Over the course of a lifetime, all sorts of things can come up. You might miss work because of an illness or injury. A major house repair might need to be done. Or a child might run out of money at university. As the expression goes, "stuff happens."

Investors should make sure they have capital available outside their TFSAs, whether its in the form of an emergency fund, a non-registered account, or even as a line of credit against their house. That way they can take care of life's emergencies without interrupting the compounding effect.

Pick great stocks

Investors should be looking for buy-and-hold forever stocks to put in their TFSAs.

A stock I currently own is **Extendicare Inc.** ([TSX:EXE](#)), one of Canada's largest owners and operators of retirement residences and assisted-living homes.

Extendicare was flush with cash after selling the U.S. division; it put that money to work by buying buildings, refurbishing others, and expanding its home healthcare network by acquiring a competitor. These moves should really start adding to the bottom line as we go through 2016.

Plus, Extendicare pays a generous dividend of 5% and offers investors a 3% discount if they reinvest their dividends into more shares. It's a great choice for a patient investor.

Another great long-term investment is **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), Canada's largest bank and the fifth largest in North America by market cap.

Royal Bank is primarily a Canadian play. The company is number one or two in every important retail banking category in Canada. Simply put, it dominates its home market. But it's also expanding internationally, especially in the United States.

And finally, Royal Bank pays investors a 4% dividend, which can be used to further accelerate the compounding magic.

The bottom line

If investors can stay patient, put a decent amount of capital into the account, and load up on great stocks like Royal Bank or Extendicare, getting their TFSA to \$1 million is almost inevitable.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:EXE (Extendicare Inc.)
3. TSX:RY (Royal Bank of Canada)

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