Become a TFSA Millionaire

Description

Although it was once the yardstick for wealth, $1 million is no longer the end of the road. As a young investor, it is important to understand the value of $1 million and what it takes to achieve it. For a 30-year-old or even a 40-year-old, reaching the number is much easier than we realize.

Assuming we use only the TFSA (Tax-Free Savings Account) and use a reasonable rate of return, it can be much easier to hit the mark than originally thought. Let's take a look at what we need to do assuming we put the maximum of $5,500 into a TFSA every year.

30 years old

For a 30-year-old wanting to retire at age 65 with $1 million in their TFSA, they must begin contributing the $5,500 annually and make a return of 8.24% compounded annually until the age of 65. Although this may seem challenging to some readers, it is a very reasonable rate of return.

Assuming an investor purchased shares in dividend grower **North West Company Inc.** (TSX:NWC) at under $25, which was possible only a few short months ago, the yield would have been a sustainable 5%. The investor would only need an additional 3.24% annually in addition to the yield, so this company could fit the mould for the million-dollar-seeking investor.

If the same 30-year-old wants to retire at age 60 instead of age 65, the rate of return would have to be higher to account for the shorter investing time frame in addition to five fewer TFSA contributions. Compounding annual TFSA contributions of $5,500 for 30 years at a rate of 10.52% would lead to a portfolio of $1 million by age 60.

Assuming the investor bought shares in **Dream Office Real Estate Investment Trst** (TSX:D.UN) at the current price of approximately $19.15, the investor would receive a yield just under 8%, needing annual appreciation of just under 3% in order to achieve the goal. Currently, shares of this company are trading under tangible book value and have a dividend payout which is sustainable given the cash flows of the company.

40 years old

The situation for a 40-year-old investor is a little different. Wanting to retire at age 60 with the same amount of money, there is only time for 20 TFSA contributions and 20 years for compounding. The rate the investor is required to compound at to reach the $1 million goal at age 60 is a very aggressive 19.78%. Any investor is going to be hard pressed to find an investment which can compound for 20 years at a rate of almost 20%.

Giving the 40-year-old time to reach age 65 (instead of age 60) will allow five additional deposits and compounding over five additional years. The required compounded rate of return to reach this number will be no less than 14% — still a tall order for any investor.

Conclusion

The good news is, even for a 40-year-old with time on their side, reaching the $1 million mark is attainable. Now that we know this, we just have to find the right investments to fit the mould.

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2. Investing

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1. Editor's Choice

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2. TSX:NWC (The North West Company Inc.)

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