
# Young Investors: 3 Tips for Building Your Million-Dollar TFSA

## Description

There is no doubt that young investors have the best opportunity to harness the power of compounding interest. If a 25-year-old started with $10,000 today, added $320 each month, and achieved a 7% annual return, they would have a million dollars by the age of 65!



If you set up your brokerage account through a TFSA and follow this plan, you could eventually be earning $30,000-50,000 a year in dividends — tax free. By buying and holding shares in great companies with reliable dividends, like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC), every young investor has the opportunity to become a TFSA millionaire.

Although, it's a simple concept, its take a great deal of time, patience, and discipline to reach this goal. Here are three helpful tips to help young investors become TFSA millionaires.

### Reduce risk through diversification

The simple saying, "Don't have all your eggs in one basket," holds true in the investing world. By acquiring stocks in only a few companies, you become more susceptible to unsystematic risk.

Unsystematic risk is the risk of an unexpected or peculiar event severely impacting a company (i.e., an employee strike, a natural catastrophe, etc.). However, if you diversify and acquire~~s~~ shares in a number of different companies in a variety of industries, unsystematic risk can be reduced or even eliminated. Essentially, you can make sure that one bad apple doesn't ruin the whole bunch.

Systematic risk, also known as "undiversifiable risk," cannot be avoided, and everyone is subject to fluctuations in a stocks prices. However, by diversifying your portfolio, you can mitigate the damage of any large swings in the market and prep your portfolio for the long haul.

### Educate yourself

If you're reading this article, you are obviously taking a step in the right direction. It is critical that as a young investor, you continue to invest in yourself as well as the stock market. Therefore, you should be continually seeking answers and using sources such as the Motley Fool to help guide you through your investing journey.

If you continually educate yourself, your knowledge base will grow along with your portfolio. Therefore, by the time you have a significant amount of money to manage, you should be well equipped with the necessary investment knowledge.

**Minimize transactions costs**

The cheapest way to do anything is to do it yourself. Therefore, you should consider using a self-directed brokerage account to manage your investments, which typically costs $10 per trade within these accounts.

However, you must not overlook the low transaction costs of these accounts. If you continually buy and sell stocks in low dollar amounts, the transaction costs will quickly build up. You should ensure that transaction costs are only 1-2% of the total transaction. Therefore, if your transaction costs are $10 per trade, you should only trade stocks in amounts greater than $500.

**Foolish bottom line**

The idea of building and handling a large portfolio on your own might be intimidating at first. However, by using these three tips, the journey to a million-dollar TFSA will be all the more attainable.



Stay Foolish.

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**Date**

2025/08/18
**Date Created**
2017/03/22
**Author**
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