



The \$5 Million Tax-Free Savings Account

Description

For many investors, the dream is to grow a portfolio to the \$1 million mark. Of the investors who reach the mark, only a small percentage will successfully double their money and reach the \$2 million mark.

Let's take a look at what it would take for a 20-year-old to achieve the \$5 million mark and a couple of stock suggestions to help them move closer to the end goal.

Let's assume the 20-year-old is starting with a new account and a zero balance, and they make contributions of \$5,500 to a TFSA (Tax-Free Savings Account) annually without ever withdrawing a penny. The beauty of a TFSA is the ability to receive interest income, dividends, and, of course, all capital gains tax free.

Assuming our investor continues to make annual contributions which, in this example, never increase and compound their investments at a rate of 10%, the time it would take to reach the \$5 million goal is no less than 47 years. A 47-year investment time frame translates to a very wealthy 67-year-old.

While 67 is still relatively young by today's standards, most investors are looking to begin withdrawing from their TFSA accounts before the age of 67.

In order to do this, investors will need to be a little more aggressive and successful at compounding money at a rate of 12.5%. At a 12.5% rate of return, the timeline changes from 47 years to 40 years. Retiring at age 60 with a \$5 million nest egg is an incredible feat by most standards.

For the even more successful investor making annualized returns of 15%, the time needed to reach the mark is but 35 years. Freedom 55 may still be within reach!

To achieve this result, investors need to do two things diligently: the first is to make the annual TFSA contributions without fail, and the second (and most difficult) is to find the securities that have the potential to return 15% or more annually.

When we look back over the past five years, a few names stand out from the pack. First, shares of **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) have returned a total price increase close to 70% over

this time while offering a dividend close to 4%. The total return for investors was nothing short of 90%, which translates to a CAGR (compounded annual growth rate) of approximately 13.7%

For investors searching for a more defensive name, shares of **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)) have offered a total price return of 125% over the same five-year period. The dividend has been 5% annually. The CAGR can be measured at close to 20%!

To reach a portfolio of \$5 million, investors will have to stay on the ball for a long time and exercise patience above all else.

CATEGORY

1. Bank Stocks
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POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:RY (Royal Bank of Canada)

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