



## TFSA Investors: How to Reach \$500,000 in Savings Before Age 40

### Description

As \$5 million in savings over a lifetime seems extremely daunting to many, investors need to worry about the big numbers when they begin investing. Given the art of compounding, investors must start small and take many steps before reaching for bigger numbers. Although it will seem incorrect to many, it is actually much more challenging to reach \$500,000 in savings (when starting with nothing) than it is to grow \$500,000 into \$2 million.

For a 25-year-old investor beginning with \$10,000 and making regular savings of \$5,500, the required rate of return needed to reach a half a million dollars is no less than 19% — a very high mark.

The potential for investors to get there sooner would be to make the contributions to an Retirement Savings Accounts (RSP) instead of a Tax-Free Savings Account (TFSA) and receive a tax deduction. With a potential refund of \$1,650 (depending on the tax bracket of the investor), the additional amount could be invested, leading to a much lower required rate of return to achieve the \$500,000 in savings. With the additional monies put aside every year, investors would require only 16.9% compounded annually to reach their goal.

As investing is a process and not a race, investors ready to take an additional five years to reach the number would require returns averaging only 10.4%.

When considering which securities to hold, the timeline can drastically change one's outlook on how much risk and reward is needed. Shares of **Canopy Growth Corp.** ([TSX:WEED](#)), which offer a substantial amount of growth on the upside, trade at a price of \$13.25. The company continues to increase capacity, but it has yet to show positive cash flows from operations on a consistent basis. Although there is a high amount of risk, shares could potentially return 100% or more in the coming year.

For those who prefer the longer timeline with less risk, shares of **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)) may be the best alternative, as the telecommunications company has increased at a compounded annual growth rate (CAGR) of 9.5% in addition to offering a dividend of almost 4.5%. To make things better for investors, the dividend has increased in each of the past five years, keeping up with the

gains in the share price.

For those wanting something more essential to homeowners, shares of **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) have been a home run over the past decade. With a current dividend yield of approximately 4.7%, shareholders have not only been rewarded with higher dividends over the years, but they have been rewarded by higher energy prices. Over the past decade, shares of Enbridge have increased at a CAGR of 11.8%, allowing lazy investors to reap huge rewards.

Although young investors starting slowly are still able to reach a major milestone by their 40th birthday, the reality is that many will not be comfortable with the amount of risk that needs to be taken on to achieve this number. Reaching \$500,000 in savings by age 45 is still an incredible accomplishment!

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TU (TELUS)
3. TSX:ENB (Enbridge Inc.)
4. TSX:T (TELUS)
5. TSX:WEED (Canopy Growth)

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