Investing for Retirement: What Is the Best Way to Grow Your TFSA?

Description

Since you cannot use losses from investments in tax-free savings accounts (TFSAs) to offset gains, you generally want to invest in a safe manner in your TFSA. At the same time, you should aim for growth in your TFSA, because profits you make in in the account aren't taxed.

The top contestants for a TFSA contest shared their strategies, which included buying large-cap value stocks and investing in black swan events. Seeing as these contestants amassed more than $70,000 by early 2015 (up to $41,000 could have been from the TFSA contributions they've made since 2009), it would be a good exercise to explore these strategies.

Buying large-cap value stocks

Large-cap stocks are established companies that are safer than small- and mid-cap companies. Buying them at a significant discount to what they're worth will boost your long-term returns.

It's even better to buy large-cap value stocks that pay growing dividends because you get an increasing income (i.e., a positive return), while you wait for their share prices to get back to normal levels.

I think **Manulife Financial** (TSX:MFC)(NYSE:MFC) is an excellent large-cap, value, dividend-growth stock for your retirement portfolio, whether you're retired now or retiring 30 years down the road.

At about $24.40 per share as of writing, the largest life insurer by market cap in Canada trades at a blended price-to-earnings multiple of about 9.8. At a more normalized multiple of about 12, it should be able to trade close to $31, which implies +26% near-term upside potential.

Other than being priced at a value, Manulife Financial also offers a 3.6% dividend yield. Its dividend is sustainable with a payout ratio of less than 40% and should continue to increase healthily in the foreseeable future. Its three-year dividend growth is 9%, and its quarterly dividend per share is 7.3% higher than it was a year ago. Manulife Financial should have no problem increasing its dividend at a rate of +6% for the next few years.

Investing in black swan events

Black swan events are unexpected events that throw the markets off. A black swan event that a top contestant referenced was the market crash triggered by a financial crisis in 2008-2009. Even as companies recovered from the crisis, from 2010 through 2012, there were a lot more bargains on the stock markets than there are now.

Having the cash in your TFSA to invest in black swan events when markets tank is a great way to grow your retirement portfolio.

Investor takeaway

As of 2018, investors have up to $57,500 of TFSA contribution room. That's $57,500 of investments that can grow tax free! Investors retired now or retiring decades later should take advantage of their TFSA to grow their investments without the hindrance of taxes. Contributing consistently to your TFSA and investing in a safe manner for growth is the best way to invest for retirement.

Investing in large-cap, value, dividend-growth stocks, such as Manulife Financial, and investing in black swan events when there are lots of bargains lying around are superb ways to grow your retirement portfolio in a TFSA.

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Date
2025/08/06
Date Created
2018/08/19
Author
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