Millennials: You Could Realistically Retire a TFSA Multi-Millionaire

Description

I'm sure you've heard of the personal finance pieces aimed at millennials that urge them to stop spending on $5 lattés or $10 avocado toast and to use the proceeds instead to save or invest.

My goal isn't to encourage you to cut these daily comforts or conveniences out of your life to fund your future. I don't know how much utility (the economic measure of satisfaction or happiness) a $5 latté gives you; nobody knows if the trade-off is worth it but you! Millennials have decided that the marginal utility from buying these goods is higher than the seemingly steep price paid for artisanal coffee, so nobody can argue with that. If you're a millennial, keep buying those lattés and avocado toast if your financial situation allows for it and they bring you joy.

If you're like the many non-indebted millennials who aren't buying homes or starting families, however, then odds are, you've got more than enough to make the maximum contribution of $5,500 into your TFSA. Just $5,500 per year is all you'll need to finance an early retirement, so you don't need to put the brakes on your discretionary spending if it brings you joy.

I'm sure you've heard of the FIRE (financial independence, retire early) movement that many millennials have embraced of late. While homeownership may be out of the equation (for now), there are other, arguably better ways to invest your capital in improving the quality of your life given the seemingly unfavourable environment that millennials are in.

Instead of home ownership, many millennials have decided (or been forced) to rent in the burbs, using a remainder of their budget towards investing in a TFSA early retirement account and using the proceeds to buy one-stop-shop investments like **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB), which are more conservative, yet more than enough to secure a safe, wealthy, and early retirement over the course of many years.

How could such a seemingly simple low-beta ETF like ZLB punch your ticket to a multi-million-dollar TFSA?

You're probably aware that the TFSA is a must-use tool, as the power of tax-free compounding is remarkably profound when given enough time to work its magic. Many millennials may underestimate its power, but here's why it's of utmost importance, as even the most boring of investments, like ZLB, can grow a TFSA to a jaw-dropping amount that's sheltered from the tax man.

Let's do the math.

Now, I'm going to assume that you've made the contribution every year and haven't spent a penny of it, bringing your TFSA value to $57,500 as of this year. That's a conservative assumption, especially when you consider that prudent investors have had well over a decade to invest compound through various investment instruments. Some younger millennials may not have had the opportunity to make the full contribution amount, and some older millennials may have invested in ZLB such that their TFSAs are now swelled, so let's stick with $57,500 for example's sake.

Now under the conservative assumption that the contribution amount remains at $5,500 over the course of decades (it's more than likely to be raised substantially over time), and assuming you make the maximum contribution every single year, (re)investing all proceeds into ZLB, let's just see how much you'd have!

ZLB has scored an above-average annualized return of 13.56% since the fund's inception, which is applaud-worthy, but not a conservative assumption to make over the decades that lie ahead. A few recessions are bound to be thrown in, so let's say ZLB will have a net return 9% per year, distributions included, after all management and admin expenses.

You'd have a textbook time-value-of-money problem on your hands — a present value of $57,500 to go with $5,500 contributions per year at a return of 9%.

Over the next 10 years, 20, 30, and 40 years, your TFSA would have swollen to around $220,000, $604,000, $1,500,000, and $3,700,000, respectively.

These are conservative estimates too!

Most millennials who stick with the basics will hit the magic $2 million milestone after 33 years, officially labeling most millennials as TFSA multi-millionaires well before their 65th birthdays.

Talk about retiring in style, without the frugal living or taking on excessive amounts of investment risk.

That's the power of compounding. Just $5,500 per year is all it takes, so enjoy that avocado toast!

Stay hungry. Stay Foolish.

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Author
joefrenette