Millennials: How to Turn a $100,000 TFSA Into a $4,000,000 Freedom Fund

Description

I know what you're thinking. The title of this article seems ridiculously far-fetched and there's probably some sort of catch, some sort of moonshot bet in a speculative asset like Bitcoin or marijuana involved.

While a [$4 million TFSA] may seem unrealistic, it's actually an inevitability for the most disciplined of millennials who make their full TFSA contributions in January, using the proceeds to invest in blue-chip equities. There's a huge caveat however! To attain a multi-million-dollar TFSA, one needs the patience and discipline of a saint, because the path to millions is indeed a rocky one. Moreover, an investor hoping to amass millions in their TFSA will also need an investment horizon that spans many, many decades (Sorry Baby Boomers!).

Today's millennials aren't buying homes; they're not getting married, they're not buying cars. What they are doing, however, is saving tonnes of money that can be used for investing over the long term.

In a prior piece, we did the math, showing that millennials could leverage the power of long-term tax-free compounding to amass nearly $4 million in 40 years.

Yes, 40 years is a long time, but I also emphasized the fact that millennials didn't need to live frugally as long as they were able to max out their TFSA contributions every single year, using the proceeds to invest in quality businesses like those within the **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB), a boring, albeit powerful investment that was a one-stop-shop for millennials to store their TFSA wealth.

While unfathomable, the TFSA is the "golden ticket" for many millennials who've been dealt a tough hand with the promiscuous job market and the ridiculously expensive housing market. If you truly understand the long-term power behind the TFSA, only then can you understand why many millennials have embraced the FIRE (financial independence, retire early) movement, and how folks like Mr. Money Mustache have been able to hang up the skates earlier than anyone ever thought possible.

It's *not* magic. It's disciplined investing within a TFSA, and the best part is, you don't even need to be the next Peter Lynch, scoring the biggest returns every single year.

A low-cost, smart-Beta ETF like the ZLB will be good enough to get you to where you want to be; you just need to keep watering your TFSA as you sit back and watch it grow over the years. As a millennial, you've got plenty of time – the most significant advantage one could have in the world of investing.

One of the biggest fears is that your TFSA retirement fund could be derailed by a few potentially nasty recessions. On the pathway to a multi-million-dollar TFSA, you're going to see massive losses, but the only thing standing between you and that gigantic TFSA is you.

If you convert your paper losses to real losses in the depths of a market crash, your dream of $4 million could quickly go up in a puff of smoke. So, it's critical that millennials "know thyself" when times get ugly. Being 100% in equities is never ideal, but fixed-income instruments will cripple your longer-term returns, especially as a young investor who, I believe, has no business overweighting their portfolios in bonds.

The smoother highway to wealth

Fortunately, the ZLB is a way to dampen the rough market waters with its lower volatility due to the low degree of correlation that the constituents of the portfolio have with the broader market. If the markets crash 50%, the ZLB will likely fall a fraction of a percentage of this amount. But on the flipside, a soaring market could also mean muted returns for the ZLB. From a longer-term perspective, however, the ZLB has outperformed both the TSX and the **S&P 500 Composite Index**, not because of the low-beta strategy, but because the low-beta holdings within the ETF are of ridiculously high quality.

With the ZLB, you're getting attractively-valued cash-flow-generative businesses, most of which have sizeable dividends and greater-than-average growth profiles. The most remarkable part of the ZLB is not only the outperformance over the long-term, but also the fact that the lower volatility essentially comes at no cost (other than the low 0.4% MER).

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