Forget Penny Stocks! Here's How to Safely Make a $1,000,000 TFSA

Description

Assuming you're an investor who's over a decade away from your expected retirement date who's contributed the absolute accumulative maximum amount for 2019, a million dollar TFSA isn't just a dream: it's an inevitability. And in 25-30 years, assuming average returns, you'll have a [$1 million TFSA] a lot sooner than you would have thought.

If you're willing to roll up your sleeves, minimize your investment costs (goodbye active manager), and spot the opportunities as they come to achieve excess risk-adjusted returns (north of the indices), your TFSA could grow so much larger and at a much quicker rate than you could imagine.

Of course, you could bet the entirety of your TFSA on Bitcoin or marijuana stocks to get to your goal in the quickest amount of time possible, but here at the Motley Fool, we're all about prudent long-term investing, not speculating on moonshots to "get rich quickly," which is actually a great way to lose your shirt quickly!

In a prior piece, I crunched the numbers to demonstrate that today's young investors have the ability to achieve financial freedom with a disciplined, self-guided investment plan. To take it a step further, in this piece I'm going to assume investors are growth-savvy, albeit risk-averse investors who are shooting to get better results than average over the long term.

In other words, an investor with the desire to beat the markets to attain a million dollar TFSA in less than 20 years with an invested principal of $75,000-100,000.

How does one *beat* the market?

That's the million dollar question. But I can tell you right now that the odds of achieving such a goal will be greatly reduced with a money manager who's soaking in a third of your retirement fund in the form of obscene fees. Canadians pay huge fees, and although that 2.8% MER seems like peanuts, only over the course of many years does it become apparent that you're paying up a heck of a lot more than you would have ever given consent to had the fee structure been better explained to you.

You need to take your emotions out of the equation and educate yourself on fundamental analysis to give yourself the best shot at scoring returns that no fund manager would ever be able to help you achieve.

To further improve your chances at getting better-than-average results, you need to recognize when and areas where the markets are deemed inefficient.

Most academics believe the markets are efficient, but when volatility strikes, the degree of efficiency drops. Moreover, smaller-cap growth stocks that are under the radar of most investors also tend to exhibit a greater degree of market inefficiency, meaning that there's a discrepancy between a stock's market value and its intrinsic value.

So, when the markets plunge, you've got to adopt Warren Buffett's timeless strategy of being "greedy when others are fearful." By looking where Main Street isn't, you'll also be able to spot mispriced gems buried beneath the dirt before they "correct" upwards.

Bouts of market inefficiency go both ways, however. In melt-ups, the market value surges above and beyond the intrinsic value of a stock, and it's these stocks that should be avoided at all costs. So, high momentum penny stocks and other uninvestable "junk" could be all smoke in mirrors. Thus, it's essential that investors steer clear of penny stocks and opt for promising mid-caps with actual fundamentals to obtain superior results.

To take it a step further, investments based in developing markets are also subject to a lower degree of market inefficiency relative to developed markets. Emerging nations typically have lower trading volumes and less interest through the eyes of international investors who usually exhibit a domestic bias.

Consider **Fairfax India Holdings** (TSX:FIH.U), a hedge fund-like investment holdings company that aims to capitalize on growth opportunities within the Indian market. It's an emerging market-focused fund run by an intelligent manager (Prem Watsa), it's an under-the-radar mid-cap, and right now, pessimism appears to be overblown due to recent weakness experienced by emerging markets.

The stock's down 32% from the top, and if you have the desire to achieve better returns, Fairfax looks like a timely bet.

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