



3 Ways to Maximize the Growth in Your TFSA

Description

Millennials have been dealt a [tough hand](#), and here to answer the call is the TFSA: a powerful investment vehicle that could even the playing ground for many of today's young people. Without further ado, here are three easy moves that you can perform to get the most out of your TFSA and the power of long-term tax-free compounding.

Keep working towards maxing out your TFSA

I don't want to sound glib, but you've *got* to keep contributing to your TFSA to max it out if you haven't done already done so to unlock the full power of tax-free compounding.

It can be tough to sock away \$6,000 per year, especially with the heavy debt loads on the shoulder of many Canadians. If you're one of the fortunate Canadians who isn't deep in the red, and you've got contributions to both your RRSP and your TFSA which isn't yet maxed out, it may make sense to take a raincheck on the RRSP for any given year, so you can max out your TFSA first.

As a young Canadian who has no intention of buying a house, I don't think it makes a lot of sense to contribute to your RRSP if you've yet to max out TFSA. The RRSP comes with strings attached. If you don't follow the rules of the RRSP and make an early withdrawal at some point down the road, you could be slapped with a hefty tax bill, potentially at a time when you've graduated to a higher tax bracket.

Life is full of uncertainties, so unless you're confident that no contingent expenses will arise, stick with the TFSA for the simplicity and its higher degree of flexibility.

Forget about tax-free savings or bonds! Use the proceeds in your TFSA to form a blue-chip foundation

Unless you're getting ready to hang up the skates from the labour force at some point over the next

few years, you ought own stocks in your TFSA; otherwise, you're surrendering one of the TFSA's greatest advantages: the ability to score capital gains and dividends without having to give up a portion to the tax man.

If you're a risk-averse investor who isn't ready to jump into the deep end of the investment pool yet, look to popular bond alternatives stocks like **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)).

The renewable energy and regulated utility powerhouse has "Steady Eddie" cash flow-generative businesses across North America to go with an above-average growth profile. The company continues to bet big on various renewable projects (solar, wind, hydro, and the like), which will be a source of meaningful dividend growth over the long haul.

Meanwhile, various utility businesses under the "Liberty Power" and "Liberty Utilities" banners are as solid as a foundation as one could ask for. The gas and electric assets are top notch, but it's the water assets that should have conservative investors the most excited. With water utility operations in several major states including Arizona, Arkansas, and California, Algonquin is the epitome of stability.

Given the perfect blend of growth, dividends, and stability that Algonquin can provide, there's no reason why a younger investor should be considering a heavy bond position for their TFSAs.

Reinvest every penny of your dividends

Over the years, your TFSA cash hoard will swell as the [dividends](#) come flowing in. Not only is Algonquin's 4.6%-yielding dividend bountiful, but the double-digit annual dividend-growth rate that can be sustained could result in big raises every single year.

Sooner or later, you'll have enough cash to either withdraw from your TFSA or reinvest to leverage the power of compounding. Unless you need the extra income to finance your lifestyle, I'd strongly encourage you to reinvest every penny, especially if you're a young investor who's thinking about retiring early.

Foolish takeaway

There you have it: three simple, almost obvious rules that you should follow with your TFSA. Although the three rules are seemingly obvious, they're tough to follow in practice over prolonged periods of time, especially when the market waters get rougher, as they did late last year.

Once your TFSA grows like a plant, keep watering it, keep adding to the soil, and soon enough you'll have a tree that'll bear humungous fruit.

Stay hungry. Stay Foolish.

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