TFSA Investors: How to Turn Your $6,000 Contribution Into $50,000 or More

Description

TFSAs are some of the most flexible tax-free accounts available for Canadian investors. With tax sheltering AND tax-free withdrawals, they're more versatile than just about any other option. With a TFSA, you could potentially build a portfolio of stocks over a lifetime and withdraw your dividends or realized gains for spending in your chequing account — and the income would STILL be tax free.

There's just one problem…

TFSA contribution room is fairly limited. While RRSPs let you contribute upwards of $25,000 a year, TFSAs only allow $6,000 in 2019. Of course, the cumulative contribution rule allows you to contribute more than that if you're opening an account for the first time and were over 18 in 2009. But still, generally speaking, you can't throw as much into a TFSA as you can an RRSP.

That's all the more reason to make every dollar in your TFSA count. While TFSAs are extremely flexible and powerful, the limited contribution room means you have to be extra careful to ensure a great return. Fortunately, with the right strategy, your $6,000 2019 contribution could easily grow to $50,000 or more over a period of years. Here are two potential strategies to get there.

Strategy #1: Score a fast tenbagger

In investing terminology, a "tenbagger" is a stock that reaches 10 times its original value. To get to this level in a short timeframe, you'll need a market-beating return, which is tough but not impossible — plenty of marijuana stocks have done it over the past three years.

However, if you want a tenbagger candidate whose valuation is in the realm of sanity, **Shopify** (TSX:SHOP)(NYSE:SHOP) is probably a better bet than weed stocks. Up 971% since its IPO, it's already been a near-tenbagger for those who got in early. And with 50% year-over-year revenue growth, it may repeat the feat all over again.

Strategy #2: Dividend reinvestment

Another strategy to turn a $6,000 contribution into $50,000 is to buy high-yield stocks and reinvest the dividends, giving you the benefits of three growth engines: dividends, capital gains, and a gradually increasing number of shares.

A great stock for this strategy is **TD Bank** (TSX:TD)(NYSE:TD). With a 4% yield as of this writing, it's already a big income producer. With dividends reinvested, that income grows even larger. And with its stock up around 44% over the past five years, TD is not shy in the gains department. Naturally, growing $6,000 into $50,000 with a milquetoast stock like this one will take some time but could be well worth it in the end.

Foolish takeaway

Ultimately, the surest way to turn $6,000 into $50,000 is with patience. Although a high-growth stock like Shopify might get you there faster than some other stocks, it's far from a guaranteed thing, and the risk of a big loss is ever present. However, if you stick $6,000 into safe stocks like TD Bank and reinvest the dividends, you may find your nest egg growing to $50,000 or more in a few decades. And, of course, a mix of both approaches in a diversified portfolio can give you the best of both worlds.

CATEGORY

1. Dividend Stocks
2. Investing
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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:SHOP (Shopify Inc.)
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Author
andrewbutton