How to Turn Your TFSA Into $1,000,000

Description

A tax-free savings account (TFSA) is the best tool for most people to build their wealth. Other than withholding taxes on foreign dividends, pretty much every other investment inside the account is tax free!

It’s not difficult to get to a $1,000,000 TFSA, but it *takes discipline* to save regularly, invest in the right stocks at the right valuations, and be able to hold on to your stocks through the gyrations of the market.

If you had made full TFSA contributions every year since 2009, you would have invested $63,500 of your own savings, which would have turned into more than $100,000 assuming a return of 10% that’s compounded at the end of each year.

Investing is about time in the market

The $5,000 that you invested in 2009 would have turned into nearly $13,000, of which nearly $8,000 is tax-free returns, while the $5,500 that you invested last year would have become $6,050, of which only $550 is tax-free.

This shows that it’s important to save and invest regularly, especially in the early stages of investing. After all, investing is about time in the market, though higher returns surely help!

Getting to your first $1,000,000

The tax-free characteristic of TFSAs is a big boost to returns, especially when you're going for returns of 10% or higher in the stock market. You can fill your TFSA portfolio with a mix of different stocks.

High-growth stocks like **Shopify** are riskier and come with higher volatility, but can be strong candidates for being multi-baggers. There are also proven dividend payers, which are suitable for most investors and tend to have stable earnings or cash flow growth to support their increasing dividends.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a favourite dividend stock for investors to build long-term wealth, with good reason — the quality stock has delivered long-term total returns of 10-12% per year when investors buy it at a good valuation.

A good portion (about 16%) of the returns came straight from its dividends. So, if investors had chosen to reinvest the dividends, their returns would be even higher.

TD stock is trading at a good valuation. At $74.88 per share at writing, it trades at a price-to-earnings ratio (P/E) of about 11.2, a discount of about 8% from its long-term normalized multiple of 12.1.

TD Bank tends to experience stronger growth than its peers because of its strong franchise and its meaningful exposure in the U.S. Indeed, it currently exhibits the highest estimated three- to five-year earnings-per-share growth of 7.8% per year among the Big Five banks.

Combining its safe yield of 4%, a strong growth rate, and a potential P/E multiple expansion to more normalized levels, the stock can deliver long-term returns of about 11-13% from current levels.

Foolish takeaway

TD stock is an incredible blue chip dividend stock that's still growing strong. Conservative investors can buy it now and expect a long-term return of about 11-13% per year.

Save early and invest regularly for target returns of at least 10% to get to a $1,000,000 TFSA! Just remember not to over-contribute to the account as you'll have to pay a penalty of 1% per month on the over-contributed amount.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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