TFSA Investors: 3 Ways to Turn Your $6000 Contribution Into $100,000

Description

Do you want to turn your TFSA into a tax-free profit machine, but worry that the low contribution limit is holding you back?

Although it's possible to deposit up to $63,500 into a new TFSA if you were over 18 in 2009 and haven't opened one yet, it will be slow going from there. Compared to RRSPs, which allow you to contribute up to $29,000 in a year (depending on income), TFSAs permit only $6000 in 2019.

That doesn't mean you shouldn't have one, however.

A TFSA is an indispensable tool in any investor's kit, as it's the only tax-sheltered account in Canada with total withdrawal flexibility. But because of the contribution limit, you'll need a solid game plan to reach your ultimate savings goal. With that in mind, the following are three strategies that could turn a single $6000 TFSA contribution into $100,000 or more.

The slow and steady dividend growth approach

If you're a seasoned investor, you probably know that high-yield dividend stocks can provide steady income no matter what the market does.

Our first strategy involves buying these types of stocks–but not necessarily ones with high yields today. Instead, you want to buy dividend stocks with long track records of raising their dividends in hopes of getting a higher yield in the future.

A stock like **Fortis Inc** (TSX:FTS)(NYSE:FTS) can be a great option here. Not only does it yield 3.5% today, which is higher than average, it has an uninterrupted 45-year track record of raising its dividend.

Fortis' management aims to increase its payout by 6% every year going forward, and with the dividend track record it has accumulated, it will likely make good on the promise.

Assuming a 10% annualized return (including reinvested dividends and capital gains), a $6000 investment would take 30 years to reach $100,000 — a solid result for someone with a low to medium risk tolerance.

The riskier but faster growth stock approach

Another approach to growing your $6,000 contribution to $100,000 is with riskier growth stocks. Stocks that beat the market will logically go up faster than stocks that are just average. And you don’t need to get involved in crazy speculative stocks to beat the market either.

Consider **Air Canada** (TSX:AC)(TSX:AC.B). This is a well-known blue chip that most Canadians will be familiar with. Yet over the past decade, the stock has gone on an incredible run, and is currently trading at 27 times its June 5 2009 closing price.

That’s an average annualized return of about 40%. At that rate, it would take only nine years to turn a single $6000 contribution into $100,000.

If your risk tolerance is well above average, you might consider this approach–just be aware that it comes with a good chance of losing money.

The mixed portfolio approach

A final approach for getting your $6000 to $100,000 is the mixed approach in which you put half of your portfolio in low risk dividend stocks and the other half in riskier growth stocks.

Balancing risk across different asset classes is a classic portfolio management strategy: it increases returns if everything goes well in the high-risk portion of your portfolio, while minimizing the losses if your riskier plays don’t pan out.

Assuming your risk tolerance is slightly above average, this strategy could reward you handsomely.

CATEGORY

1. Dividend Stocks
2. Investing

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