TFSA Investors: Here’s How to Quickly Double Your $6000 Contribution

Description

Did you know that in 2019 you can deposit up to $6000 into your TFSA and watch it grow tax free with unlimited withdrawal flexibility?

It’s true.

TFSAs are the most flexible tax-free savings accounts in Canada, and in 2019, their contribution limit is $6000. Not only that, but annual TFSA limits are expected to increase in future years, so you may be able to deposit more in the future. In fact, if you were over 19 years of age when TFSAs were first introduced and you haven’t opened one yet, you may be able to contribute $63,500 into your TFSA today.

But assuming you’re only eligible to contribute the 2019 limit today, you’re in luck. Not only will you stand a good chance of being able to contribute more in future years, but even a small $6000 contribution today can grow to substantially more than that tomorrow. To see how that’s a case, we need to look at how long it would take $6000 to double at an average rate of return.

How long it would take at an average rate of return

Historically, the TSX has averaged a 10% annualized return when you factor in both dividends and capital gains. At a rate of 10% a year, it would take seven years for an investment to double. So, in seven years, you’d see your $6000 contribution grow to $12,000–not a bad result given that treasury bills are currently yielding less than 2%.

However, if you’re willing to take on a little risk, you could get an even better result than that. To see how that would work out, let’s do the math with one of the TSX’s top-performing stocks.

How long it would take with one of the TSX’s best performers

If you invest your $6000 into a top-performing TSX stock, instead of the index as a whole, you could double your $6000 contribution much faster.

Consider **Shopify Inc** (TSX:SHOP)(NYSE:SHOP) for example. Over the past 12 months, Shopify shares have risen 94%, surpassing $400 apiece. At that rate of return, it would take only a little more than a year to double your $6000 TFSA contribution. Shopify has been on fire over the past few years thanks to its scorching hot revenue growth and increasing market share. With a company that's growing almost as much as its stock is rising, it's not unrealistic to expect the stock to keep climbing.

If you don't feel comfortable shooting for the stars with Shopify, you can always buy an index fund like the **iShares TSX Capped Composite Index Fund** (TSX:XIC) and try for that 10%. XIC is an index fund that tracks the S&P/TSX composite index, achieving average results almost by definition.

Although the TSX has been a far cry from averaging 10% over the past five years, funds such as XIC do pay dividends to help offset the lacklustre returns. And who knows? With a massive upswing in the price of oil, maybe the days of 10% a year returns could make a comeback.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)
3. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)

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