How to Get Your TFSA to $1,000,000

Description

There's no one strategy to building your portfolio's value over the long term. Whether you choose to focus on dividends or growth stocks depends on several factors, including your risk tolerance as well as how many years you have left to invest. Below, I'll show you a couple of ways that you can get your TFSA to $1,000,000 by retirement.

The conservative approach

The first strategy involves relying on a combination of both dividends and growth. And a bank stock is a great way to do that, since they often offer growing payouts and rise in value as well. They're also fairly low risk and can keep your money relatively safe. A stock like **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) has more opportunities for growth than some of its peers due to its recent acquisition and expansion into the U.S. market.

Over the past 10 years, CIBC stock has grown by an average of 5.9% per year, and given its potential growth in the U.S., it might not be unreasonable to expect that the company can continue at that rate for the foreseeable future. On top of that, investors are currently earning about 5.4% in dividend income annually, and over the past five years, CIBC has hiked its payouts by an average of around 7%.

With those assumptions intact, it would take approximately 30 years for a $100,000 investment in CIBC stock to reach the $1,000,000 mark.

Year	Portfolio	Annual Dividend	Cumulative Dividend	Portfolio + Dividend
1	$105,868.77	$5,444.29	$5,444.29	$111,313.06
2	$112,081.97	$5,823.27	$11,267.57	$123,349.53
3	$118,659.80	$6,228.63	$17,496.20	$136,156.00
4	$125,623.67	$6,662.21	$24,158.41	$149,782.08
5	$132,996.24	$7,125.97	$31,284.38	$164,280.62
6	$140,801.49	$7,622.01	$38,906.39	$179,707.87

7	$149,064.80	$8,152.58	$47,058.97	$196,123.77
8	$157,813.08	$8,720.09	$55,779.06	$213,592.13
9	$167,074.76	$9,327.09	$65,106.15	$232,180.91
10	$176,880.00	$9,976.36	$75,082.51	$251,962.51
11	$187,260.68	$10,670.81	$85,753.32	$273,014.00
12	$198,250.58	$11,413.61	$97,166.94	$295,417.52
13	$209,885.46	$12,208.12	$109,375.06	$319,260.51
14	$222,203.16	$13,057.93	$122,432.99	$344,636.14
15	$235,243.75	$13,966.90	$136,399.89	$371,643.64
16	$249,049.67	$14,939.14	$151,339.03	$400,388.70
17	$263,665.82	$15,979.06	$167,318.09	$430,983.91
18	$279,139.77	$17,091.37	$184,409.46	$463,549.22
19	$295,521.84	$18,281.10	$202,690.56	$498,212.40
20	$312,865.34	$19,553.66	$222,244.22	$535,109.56
21	$331,226.70	$20,914.80	$243,159.02	$574,385.71
22	$350,665.63	$22,370.68	$265,529.70	$616,195.33
23	$371,245.40	$23,927.92	$289,457.61	$660,703.01
24	$393,032.94	$25,593.55	$315,051.16	$708,084.10
25	$416,099.15	$27,375.12	$342,426.28	$758,525.43
26	$440,519.05	$29,280.72	$371,707.00	$812,226.05
27	$466,372.11	$31,318.96	$403,025.96	$869,398.07
28	$493,742.42	$33,499.08	$436,525.04	$930,267.46
29	$522,719.04	$35,830.97	$472,356.00	$995,075.04
30	**$553,396.22**	**$38,325.17**	**$510,681.18**	**$1,064,077.40**

While $100,000 would be more than your TFSA limit is today, if you and your spouse or another family member are able to use multiple accounts, then it would certainly be attainable. The problem, however, is that 30 years might be a bit long for someone who’s a bit closer to retirement, as it would mean you’d need to be about 35 years of age today for this strategy to work.

The aggressive approach

If you’re looking for a shorter time frame to invest, then your best bet is to look at growth stocks. While there might be a bit more risk involved and you’ll benefit from minimal, if any, dividend income, it could get you to your goal a lot quicker. Take, for example, a tech stock like **Facebook** (NASDAQ:FB), which has risen 200% over the past five years. That’s an average growth rate of around 25% per year. That might be a bit optimistic to expect over the long term. To be conservative, we might use a rate of 15% instead, so it will take into account slower-growing periods as well.

Under this strategy, we might expect to see the same $100,000 investment grow to $1,000,000 by the end of year 17.

Year	Portfolio
1	$115,000.00
2	$132,250.00
3	$152,087.50
4	$174,900.63
5	$201,135.72
6	$231,306.08
7	$266,001.99
8	$305,902.29
9	$351,787.63
10	$404,555.77
11	$465,239.14
12	$535,025.01
13	$615,278.76
14	$707,570.58
15	$813,706.16
16	$935,762.09
17	**$1,076,126.40**

This would mean that by age 47, investors would be able to make the same investment and achieve the same goal as if they had invested earlier using a safer strategy. Obviously, these models are based on a set of assumptions, and Facebook could grow at a slower rate or perhaps even a quicker one. However, investors could still adjust accordingly and move funds from Facebook shares into the latest big tech stock.

CATEGORY

1. Dividend Stocks
2. Investing

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