TFSA Investors: Here's How Much Your $6000 Contribution Can Grow in 7 Years

Description

At $6000, the maximum 2019 TFSA contribution doesn't look like much. At less than half the size of a typical salaried employee's RRSP room, it hardly seems like a major step toward your savings goals. But looks can be deceiving.

Not only is TFSA contribution room cumulative (i.e., you can use space you didn't use in past years), but even a single $6000 contribution can pay you handsomely thanks to the power of compounding interest.

As you're about to see, even at an *average* annualized rate of return, your contribution can double in short order. Over the span of an entire lifetime, it could grow to $100,000 or more–*without* even beating the market.

If you're interested in seeing how far a $6000 TFSA contribution can go, the following are two hypothetical scenarios will help illustrate what you can expect.

At the average TSX index rate of return

The law of 72 states that the amount of time needed to double your return equals 72 divided by your rate of return. So, with a 10% annualized return, it would take you about seven years to double a $6000 TFSA contribution.

Since 1970, the **S&P/TSX Composite Index** has averaged about a 10% return if you include both dividends and capital gains. At that rate, it would take you exactly 7.2 years to double a $6000 TFSA contribution.

If you're aiming for a long-term 10% average return, you could invest in an index ETF like the **iShares S&P/TSX Capped Composite Index Fund** (TSX:XIC) and track the TSX almost perfectly.

Although there can be a tracking lag between ETFs and the indices they're based on, it's usually fairly minimal, so your results will be average or very close to it.

XIC invests in all of the major S&P/TSX Composite Index components in equal proportion to their market capitalization rates, a passive strategy that saves you money on fees.

With a 0.006% MER, the fees paid on this fund are negligible, letting you keep the vast majority of your gains.

At a market-beating rate of return

If you manage to achieve a market-beating return, your $6000 TFSA contribution could grow extremely quickly.

Consider how a **Shopify Inc** (TSX:SHOP)(NYSE:SHOP) investor would have fared over the last three years, for example. Shopify has an average annualized return of 109%.

At that rate, you'd more than double your money every single year and grow from $6000 to over $500,000 in seven years.

Of course, you can't expect such massive rate of return to continue forever. Shopify has become a 10-bagger in the span of just three years; if that kind of growth were to continue for another six years, the company would become larger than **Amazon** by market cap.

However, even if the company beats the market by only 10% a year, its stock will still double investors' money much faster than an index fund like XIC. That is, of course, a huge assumption.

Shopify is already a very expensive stock, and the company's revenue growth is already decelerating. But as the aforementioned figures show, if you can find opportunities like SHOP early enough, you can really get those TFSA dollars growing.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

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