TFSA Investors: Turn $63,500 Into $1 Million in Fewer Than 12 Years

Description

Tax-Free Savings Accounts (TFSA), because of their tax-effective nature, are powerful investment vehicles that can be used to create wealth. Essentially, any dividends or capital gains generated in a TFSA are tax-free for life and withdrawals can be made at any time.

By removing the leakage created by taxes, which can significantly erode investment returns, a TFSA is the ideal investment vehicle to build wealth and access the power of compounding, which can accelerate wealth creation.

For any investor who has yet to contribute to a TFSA, the maximum cumulative contribution available, including the $6,000 limit for 2019, is $63,500. Let me show you how, even in an environment where investment returns are weighed down by historically low interest rates, to turn that into $1 million in just over 11 years.

Quality investment

Key is choosing a quality stock that has a long history of delivering value for investors, solid defensive characteristics, and that possesses considerable growth potential. One such stock is **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP), which owns a globally diversified portfolio of infrastructure, which is critical to economic activity. That infrastructure includes toll roads, railways, ports, utilities, telecommunications, and data centres.

The steep barriers to entry, including significant regulation and the substantial amounts of capital required to acquire those assets, create an oligopolistic market that defends Brookfield Infrastructure from competition and allows it to operate as a price maker. This not only creates an almost insurmountable economic moat but also protects earnings growth and endows the partnership with solid defensive characteristics.

Those defensive attributes, as well as the partnership's growth potential, are enhanced by its diversified global exposure, where it has operations in developed and emerging markets.

The dependability of Brookfield Infrastructure's earnings is underscored by the fact that it generates 95% of its earnings from regulated or contracted sources. Since 2014, Brookfield Infrastructure has grown revenue at a compound annual growth rate (CAGR) of 11% and EBITDA by 9%. Its distribution, which Brookfield Infrastructure has hiked for 11 years straight, has a CAGR of 10% and yields a juicy 4.5%.

There is every indication that Brookfield Infrastructure's earnings will continue to grow at a solid clip over the long term, as highlighted by its strong second-quarter 2019 results.

Funds from operations (FFO) soared by 13% to US$337 million and adjusted funds from operations (AFFO) shot up by 12% to US$264 million. That impressive growth was the result of a combination of additional assets acquired by Brookfield Infrastructure since the end of the second quarter 2018 and organic growth initiatives implemented over the last year.

Such strong earnings growth will continue for the foreseeable future because the partnership, with other institutional investors, has recently executed a series of deals. These include the US$700 million acquisition of Vodafone New Zealand, the US$5 billion buyout of railway operator **Genesee & Wyoming**, and US$550 million acquisition of two operational natural gas pipelines in Mexico.

Power of compounding

Brookfield Infrastructure is the ideal stock for investors seeking to access the power of compounding and accelerate the rate at which they are creating wealth. It offers a distribution-reinvestment plan (DRIP), where unitholders can reinvest the distributions paid to buy additional units in the partnership at no additional cost, eliminating the need to pay brokerage, which can erode investment returns.

If you had invested $10,000 in Brookfield Infrastructure 10 years ago and reinvested all distributions, then that investment would now be worth $78,000, which is an average annualized return of 23%. Had the distributions been taken as cash, then that initial investment would only be worth $62,000, which is an average annual return of 20.5%.

Foolish takeaway

While past returns are no guarantee of future performance, if an investor who has never contributed to a TFSA made the maximum $63,500 contribution and used that to purchase Brookfield Infrastructure, added $6,000 annually, and reinvested all distributions, they would have $1 million in under 12 years.

The likelihood of Brookfield Infrastructure consistently delivering solid long-term returns is high, especially when the quality of its portfolio and management team are considered along with its capital-recycling strategy.

CATEGORY

1. Dividend Stocks
2. Investing

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Date
2025/08/20
Date Created
2019/08/06
Author
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