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

Description

Everyone wants a good nest egg for retirement, and $1,000,000 is a number that many investors have in mind when it comes to a savings goal. Whether or not it proves to be enough will ultimately depend on a person's lifestyle as well as how long they live.

However, if you have saved up $1,000,000 inside of a TFSA, then consider that even a reasonably modest dividend rate of 3% would generate $30,000 a year in tax-free dividends for you.

While $30,000 may not sound like a lot, that's also cash that is free of further deductions. If you need more, you could also opt for higher-yielding stocks, or you could decide to withdraw some funds as well. The great thing about having saved up money for retirement is that it gives you many different options.

How to get to the $1,000,000 mark

Having a big nest egg is the end goal, but how to get there is the big question. Currently, the cumulative limit for a TFSA is $63,500 for individuals that have been eligible every year. That's not a big amount to get to $1,000,000 and would require a total return of 1,474%, which is not realistic, even over a long period of time. However, if we try and do this with a spouse or partner, then our starting point doubles to $127,000.

Let's start by working backwards to see how much we'd need to earn for that $127,000 to reach our goal. To get to $1,000,000, we would need our investment to grow by 687%. One of the benefits of a long-term goal is that we have time to help us. And in the investing world, that means we can benefit from compounding.

If we had 20 years to invest, that would mean we'd need to average a compounded annual growth rate (CAGR) of 10.9%, which may be a tad too aggressive. If we add another five years, then we need to have a CAGR of 8.6%, which is a bit more reasonable.

If we combined a decent return with a good dividend yield, that's certainly doable. A great example is a stock like **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), which has an above-average dividend for a bank stock, yielding around 5% per year. That means you won't need more than 3.6% on top of that to reach the CAGR needed to grow your investment to $1,000,000 by year 25.

Although Bank of Nova Scotia has struggled in recent years, over the long term, the stock has generated great returns for investors. And especially if you're looking over a long window like 25 years, any short-term fluctuations will have balanced out by then.

The challenge is, of course, that there are also no guarantees of what might happen over such a long period of time. But for the purposes of this example, if we assume that Scotiabank is able to continue paying its dividend while the stock rises 4% annually (on average), then your $127,000 combined TFSA investment would grow to over $1,000,000 within 25 years.

However, the profits could be even greater than that, as Scotiabank has a strong presence in an emerging Latin American market, and there's the potential that the stock will earn well in excess of 4% annually.

Bottom line

This is just a sample scenario, but it demonstrates how with a large enough pool of funds, a good dividend, and an opportunity to benefit from capital appreciation, you can realistically reach the $1,000,00 mark in your TFSA without taking on a lot of risk.

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Author

djagielski