Turn $10 Into $100 in 10 Years With This Simple TFSA Trick

Description

What would you be willing to do to multiply your wealth 10 times over? Would you launch a new business, flip houses, or start a second job? Fortunately, there's an easier way to reach this goal: the power of compounding.

Investing money at a fixed rate of return over a long period of time is a surefire way to multiply your wealth. However, the fixed rates available to most Canadian savers are so low that it could take decades to just double the initial investment. To multiple wealth 10 times over within 10 years requires a Herculean effort.

Here's what you need to do to achieve this lofty goal:

Understand how companies grow

Buying stocks means betting on companies. However, most investors fail to recognize the underlying growth engine that drives companies (and their performance) over time.

Just like an investor, a company grows by earning income and reinvesting that money. If a company earns $1 per share over the course of a year and decides to pay $0.50 in dividends, it is left with $0.50 to reinvest. The percentage of net income a company holds back is called reinvestment rate (RR).

Then the company's regular business operations generate a rate of return on this reinvested capital. So, if the company earns $0.10 for every dollar it holds back from earnings, the return on invested capital (ROIC) is 10%.

Multiplying these two figures, ROIC and RR, offers us a sustainable growth rate for a listed company.

Target 26%

To turn $10 into $100 in 10 years would require a sustainable growth rate of 26% or above. There's not a lot of listed companies that achieve this rate of growth. **Royal Bank of Canada**, for example, manages a retention rate of roughly 55% and a return on equity of 16%, which implies a growth rate of

8.8%.

However, there are a handful of stocks that achieve the 26% growth target. A standout example is technology conglomerate **Constellation Software**. The company's reported ROIC has been hovering around 30% for the past 10 years. These results are clearly reflected in the company's stock price, which has multiplied *36 times* over this period.

There's probably other companies with similarly high ROICs, but I prefer Constellation, because I believe the company's leader is the next Warren Buffett.

Buy and hold in your TFSA

The final element in this recipe of wealth creation is reducing the tax liability, preferably through a Tax-Free Savings Account (TFSA) or a Registered Retirement Savings Plan. Investors aiming for oversized returns should maximize their TFSA contribution in 2019 and beyond.

Simply reducing the tax burden can make a massive difference in the long-term performance of any investor, regardless of skill. Without the tax shield, turning $10 into $100 will take a few extra years because you may owe a double-digit percentage of the asset to the government when it's time to sell and reap your rewards.

Bottom line

Multiplying wealth 10 times over in less than a decade may seem like a ludicrous goal, but with the right strategy and a bit of luck, patient investors can certainly achieve it.

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vraisinghani