The $1,000,000 TFSA: Is it a Plausible Goal for Millennials?

Description

A lot of articles have been touching on the topic of reaching the $1 million TFSA milestone lately.

For young investors like millennials, it's not just an attention-grabbing headline; it's a realistic goal that may actually be conservative for those investors who stick with their goals and have the patience and discipline to be fearful when others are greedy and greedy when others are fearful, just like Warren Buffett.

Even if you don't have what it takes to be a contrarian, you can still amass a multi-million-dollar TFSA by the time millennials hit retirement age. The average millennial has just over three decades to invest — a time horizon that could result in an unfathomable amount of tax-free compounding.

We did the math in a prior piece and discovered that today's young investors can grow their TFSAs to $1,500,000 in 30 years and $3,700,000 in 40 years, just by contributing the maximum amount every year and using the proceeds to invest in a basket of securities such as **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB), my preferred one-stop-shop investment for passive investors who want a better risk/reward trade-off than plain, vanilla index funds.

I assumed a 9% annual return, which is conservative given Foolish investors have what it takes to do *better* than the market averages. I also assumed that investors reinvested distributions back into the ZLB and that the annual TFSA contribution limit would remain static at $5,500 (it's since increased to $6,000).

The results were remarkable, since all young investors needed to do is set aside $6,000 of their net income every year to hit such milestones, and any cash in excess of this amount could go towards comforts and conveniences that millennials seem to value so much.

Contrary to popular belief, you don't need to be raking in a six-figure salary or be ridiculously frugal to amass a +$1,000,000 TFSA by retirement. So, millennials *can* have their avocado toast and eat it too, thanks to the difficult-to-fathom power of tax-free compounding (dividend reinvestment) over the long term.

And the most shocking part is, one doesn't even need to crush the markets consistently over the long haul. It's as simple as the ZLB, which is essentially a low-cost fund that will give indexed investment products a good run for their money over time.

What's in the ZLB?

Not higher-risk growth names, but hand-picked Steady Eddie cash-flow-generative businesses that, when combined together, are able to lower one's beta and increase their Sharpe ratio (a popular measure that weighs returns relative to risks taken on).

Good, old-fashioned dividend payers, REITs with significant distributions, and lowly correlated "hedge" plays like **Fairfax Financial** are what you're getting with the ZLB. All with healthy balance sheets, stable operating cash flows, and predictable growth profiles.

The managers running the ETF are obliged to stick with the low-beta strategy, so what you won't see is excessive trading that'll increase costs or uncharacteristic investments that could lead to outsized losses.

Should investors aim to score a $1 million TFSA?

Yes. For younger investors like millennials, a million-dollar TFSA is not only plausible; it's inevitable for those who stick with a plan and are able to maximize their time in the market rather than timing the market.

Young investors need to understand it takes decades to reach a $1 million TFSA, though. It's not a process that happens overnight and thinking one can hit the milestone within the next decade is what leads to one to pursue speculative opportunities than often lead to outsized losses, ultimately delaying the million-dollar milestone further.

So, stick with a long-term plan, and you too can retire with more than a million bucks in the bank by the time you're 65. It's not magic; it's tax-free compounding — the eighth wonder of the world.

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