How to Turn your $63,500 TFSA Into a $127,000 Cash Cow

Description

Did you know that $63,500 is the maximum possible amount of TFSA contribution room you can have in 2019?

If you're only vaguely familiar with TFSAs, that figure may seem surprising. You may have heard that TFSAs offer small maximum contributions each year; for example, $6,000 in 2019. That is technically true. However, TFSA contribution room is cumulative, so if you were 19 in 2009 (the year TFSAs were created), you may be eligible to deposit $63,500 today.

$63,500 is not an insignificant amount of money. And with only "average" returns, you could turn it into $127,000 in just seven years. Here's how.

The law of 72

The law of 72 is a mathematical principle that tells you how long it would take to double a given investment. The formula is 72 divided by the rate of return. For North American stocks, the average rate of return over the past century has been about 10% per year.

At that rate, it would take 7.2 years to turn $63,500 into $127,000. So, you hardly need a market-beating return to double your money and build a $127,000 cash cow.

Boost your balance with growth stocks

If you want to get from $63,500 to $127,000 faster than average, you have some options available to you. While it's rare for investors to outperform the market consistently, it can happen. One of the ways to make it happen is with high-growth tech stocks like **Shopify**.

So far this year, Shopify has risen 132% on the strength of high revenue growth and the increasing popularity of its service. With a 132% annualized rate of return, you'd turn your $63,500 into $127,000 in under a year. Of course, you can't count on returns like that to last forever. This is why, if you're lucky enough to get them, you may want to cash out part of your holdings and get into dividend stocks.

Generate income with dividend stocks

With a $127,000 TFSA balance, you could earn a serious amount of dividend income. At a 4% yield, you'd earn $5,080 per year — and all that income would be tax-free inside of your TFSA.

One high-quality dividend stock that could earn you that kind of income is **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN).

Algonquin is, as the name implies, a utility company. Unlike many other utilities, the company has big investments in renewable energy like wind, power, and solar. With climate change a growing concern, governments and companies are investing big in green energy, and Algonquin is in on this trend on the ground floor. The company is also involved in waste water treatment, electricity distribution, and natural gas distribution.

As a utility, Algonquin enjoys a highly stable and dependable revenue stream. Because heat and light are such indispensable services, people won't cut them out even in the worst of times. As a result, Algonquin can maintain its revenue even in recessions.

And the proof is in the pudding: over the past four quarters, AQN has grown its net income from $52 million to $147 million. If the company can keep up growth like that, you can expect its high dividend yield to persist for the foreseeable future.

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Date
2025/09/17
Date Created
2019/10/17
Author
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