



Turn Your \$63,500 TFSA Into \$1 Million in as Little as 14 Years

Description

Many Canadians fail to [maximize the benefits](#) offered by investing in a Tax-Free Savings Account (TFSA). The investment vehicle's tax-sheltered nature makes it one of the most effective means of accumulating wealth. This is because all capital gains and dividends earned in a TFSA are typically tax-free for the life of the investment, thereby removing the corrosive impact of taxes on returns.

Why use a TFSA?

Canadians who were eligible to invest in a TFSA when they were introduced in 2009 but have yet to contribute have accumulated the ability to invest up to \$63,500 in a TFSA. What many Canadian's don't realize is that by investing for the long term in quality dividend-paying stocks, which regularly hike their dividend and possess solid growth potential, they can accelerate the pace at which they create wealth.

Another important tool for maximizing the benefits offered by a TFSA is to access the power of compounding. By regularly reinvesting dividend payments to acquire additional shares, investors can significantly boost the pace at which they accumulate wealth over the long term, thereby achieving financial independence sooner. One of the best means of doing this is to choose companies that offer a dividend-reinvestment plan (DRIP), because they allow shareholders to reinvest their dividends without incurring additional brokerage fees or other costs.

The power of compounding

A top stock with a long history of growth that every Canadian should consider adding to their TFSA is **Brookfield Renewable Partners** ([TSX:BEP.UN](#))([NYSE:BEP](#)). The clean energy utility has gained a whopping 302%, including dividends, over the last 10 years and is poised to deliver further solid growth. Brookfield Renewable's second-quarter 2019 results indicate that it is finally unlocking value for unitholders. Funds from operations soared by almost 35% to US\$0.74 per unit, while consolidated adjusted EBITDA shot up by 16% to US\$630 million, and a net profit of US\$17 million was a significant improvement over the US\$2 million loss reported a year earlier.

Those substantially improved financial results were underpinned by a notable increase in the volume of electricity generated. Total electricity generation for the quarter rose by 13% year over year to 14,888 gigawatt hours (Gwh) and was 4% greater than forecast average long-term electricity output for the period.

Key to those solid numbers, aside from superior climatic conditions leading to improved water flows for Brookfield Renewable's hydro power plants, is the ongoing investment in new assets. The partnership completed 322 MWs of acquisitions in the U.S. during the second quarter and invested US\$500 million to acquire a 50% stake in Spanish solar power developer X-Elio. This — along with internal growth initiatives, including negotiating higher prices for power-purchase agreements, developing new assets, and using capital recycling to fund further opportunistic acquisitions — will boost earnings.

Steadily improving profitability and earnings combined with Brookfield Renewable's robust defensive characteristics, including a wide, almost insurmountable moat, make it a must-own stock, particularly when the powerful tailwind created by the global trend to renewable energy is considered.

There is also Brookfield Renewable's [sustainable distribution](#), which it has hiked for the last nine years straight to yield a juicy 5%. Those payments can be used to acquire additional units through Brookfield Renewable's DRIP without having to pay brokerage or other transaction costs. This, combined with a steadily growing distribution, which is forecast to grow by 5-9% annually, allows investors to access the power of compounding. The tremendous returns this can generate becomes apparent when it is considered that over the last 10 years, Brookfield Renewable has delivered a 426% yield, or 18% annually if distributions were reinvested, compared to 302%, or 15% per year if they were taken as cash.

Foolish takeaway

While past performance is no guarantee of future returns, Brookfield Renewable, for the reasons discussed, will continue to perform strongly for the foreseeable future. On that basis, if you were to invest the maximum TFSA contribution available to eligible Canadians who have never contributed of \$63,500, added \$6,000 annually and reinvested all distributions, you could become a TFSA millionaire in as little as 14 years. That significant amount of wealth would provide a considerable degree of financial freedom and generate passive income of around \$48,000 annually if Brookfield Renewable's distributions were taken as cash.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/09/22

Date Created

2019/10/21

Author

mattdsmith

default watermark

default watermark