



Turn Your \$6,000 TFSA Contribution Into \$50,000 in Fewer Than 5 Years

Description

Many Canadians fail to appreciate just how powerful a Tax-Free Savings Account (TFSA) can be when it comes to creating wealth. The investment vehicle, which was introduced in 2009 to promote savings and wealth creation, is tax-sheltered, meaning that typically all capital gains, dividends, and interest payments received are tax-free. That removes the impact of tax on investment returns, which is one of the most significant obstacles to building long-term wealth.

Maximize the benefits

TFSAs are the ideal vehicle to hold growth-oriented investments and unleash the power of compounding to accelerate long-term wealth creation. A key mistake that Canadians should avoid when using a TFSA is using them to hold speculative, high-growth investments. This is because an annual contribution limit applies to TFSAs, which has been set at \$6,000 for 2019 and capped at the same amount for 2020. When a speculative investment is held in a TFSA and declines in value, that contribution room is permanently lost if the investment doesn't recover. That has the potential to derail the pace at which wealth can be accumulated and is a waste of the benefits provided by a TFSA's tax-sheltered status.

It is far better to use a TFSA to hold proven high-quality growth investments that have a long history of delivering value through a combination of capital growth and regular sustainable dividend payments. Not only does this allow investors to avoid the corrosive effect of taxes on investment returns but also to accelerate the pace at which they can create wealth by reinvesting dividend payments to unleash the power of compounding.

Build wealth faster

An ideal stock to build long-term wealth and hold in a TFSA is **Dream Industrial REIT (TSX:DIR.UN)**. Aside from paying a regular sustainable distribution yielding 5%, the REIT has [performed strongly](#) over the last five years, delivering a return, including distributions, of 80%, or 12% on an annualized basis. There is every indication that Dream Industrial will continue to unlock considerable value for investors.

The [rapid uptake](#) of online retailing and e-commerce, which industry analysts expect to expand by up to 15% annually, has sparked a surge in demand for industrial properties to be used as logistics centres. This — along with a dearth of investment in industrial real estate over recent years — has created a supply shortage, which is pushing property prices and rents higher. That will act as a powerful tailwind for Dream Industrial, which reported some solid second-quarter 2019 numbers. Dream finished the quarter with an impressive occupancy rate of 96.9%, net rental income that soared by 27% year over year, and funds from operations (FFO) that shot up by 37%.

The tight market for industrial real estate will lead to higher occupancy rates and rents, further bolstering Dream Industrial's earnings. This will be further boosted by Dream Industrial's strategy of capital recycling where mature assets are sold, and the proceeds used to make opportunistic accretive acquisitions.

The REIT is also transforming its portfolio by boosting its exposure to the U.S. and strengthening its balance sheet. That saw Dream Industrial finished the second quarter 2019 with a very conservative net-debt-to-assets ratio of 37.4%. Growing FFO and earnings will further support the sustainability of the REIT's distribution, which, with a trailing 12-month (TTM) diluted FFO payout ratio of 83%, is sustainable.

Foolish takeaway

Dream Industrial allows unitholders to reinvest their distributions to acquire additional units at no costs through its distribution-reinvestment plan. By doing this, they can access the power of compounding, which will substantially boost the speed at which wealth is created. Over the last five years, if distributions were reinvested, Dream Industrial has returned a whopping 106%, or 15.6% on average annually.

While past performance is no guarantee of future returns, for the reasons discussed, Dream Industrial is well positioned to continue delivering considerable value for investors. If you contributed \$6,000 to your TFSA today, added \$6,000 annually and reinvested the distributions, you could accumulate \$50,000 in fewer than five years.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)

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1. Business Insider
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