Turn a $63,500 TFSA Into $1,000,000 by Doing This

Description

There are many strategies that you could deploy to help grow your TFSA balance over the years. A rising share price and dividend income could both result in significant savings for your portfolio.

For instance, just investing the maximum TFSA contribution limit of $63,500 into shares of **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) could generate over $3,200 a year in tax-free dividend income for you. With the stock currently yielding more than 5.1%, it's one way to inject a lot of recurring cash flow into your account.

The bank stock can offer you a lot of stability as its modest payout ratio of around 50% along with its strong financials make its dividend very strong and sustainable. Unlike stocks with very high dividend yields that could be in danger of being cut, CIBC's stock is one of the better dividend stocks that you can invest in on the TSX.

The one area that may be a bit underwhelming for investors is in the stock's overall growth, as CIBC shares have climbed around just 9% in five years. The stock isn't ideal from a growth perspective, and while its dividend income can be a great way to add recurring income, the stock may still be a less-than-optimal way to grow your TFSA.

Instead, investors may be better off investing in a pure growth stock like **Amazon.com, Inc.** (NASDAQ:AMZN). While Amazon is just an example, it highlights how much greater your returns could be investing for growth rather than dividends.

Why investing in growth stocks can be the best strategy to grow your TFSA

In five years, Amazon's stock has climbed by nearly 500%. That averages out to a compounded annual growth rate of about 43% per year. Those are returns you won't earn with a stock that focuses primarily on dividends to create shareholder value.

And while investors may scoff, saying that it's Amazon and that's just the luck of the draw, remember that these returns are only since 2014. Five years ago, the stock had already emerged as a top tech stock. It wasn't a risky buy or a penny stock that you weren't sure which direction it was headed.

Here's how quickly your TFSA could have grown from $63,500 to over $1,000,000 investing in a stock with a similar growth rate today:

Year	Portfolio
1	$90,643
2	$129,387
3	$184,692
4	$263,637
5	$376,326
6	$537,184
7	$766,798
8	**$1,094,559**

Amazon's returns may be a bit on the extreme side, but they help to illustrate the point: growth stocks are the key to growing your TFSA over both the short and long term.

However, that doesn't mean that you should be looking for a penny stock to invest in. There are plenty of good investments out there that can provide investors with a lot of growth and the opportunity to earn a better return than you could get with investing in bank stocks.

It's important to note that under the above model we would assume a growth rate of more than 42% each and every year. But even if you're looking at smaller returns of 20%, those would still likely be far and away better than what you could earn with a bank stock like CIBC. And while that doesn't mean that the CIBC is a bad investment, it's just not ideal if you're willing to take on some risk and invest in a good growth stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:CM (Canadian Imperial Bank of Commerce)

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