Investors: This 1 Brilliant Move Could Double Your TFSA

Description

Do you want to enjoy the flexible tax-saving benefits of a TFSA, but find yourself bemoaning the low contribution limit?

You're not alone.

While TFSAs are unmatched in their flexibility to withdraw and re-contribute funds, they come with a catch: low contribution limits. In 2019, account holders only got $6,000 in contribution space.

Since 2009, $63,500 in total space has accumulated. That's certainly not nothing, but you need to have been 18 or older in a given year to claim that year's space. Therefore, in 2019, you need to be at least 28 years old to claim all $63,500 worth of space accumulated since TFSAs began a decade ago.

If you're young, or have a lot more than $63,500 to invest, your available TFSA space can seem woefully inadequate. It would be wise to remember, though, that contributing money isn't the only way to get your TFSA balance up. With the right investment strategy, you can easily boost the returns you'd otherwise earn. The following simple strategy is one way to do that.

Reinvest your dividends

Reinvesting dividends is the easiest way to boost returns on a given stock.

The capital gains you get on any given security are beyond your control. However, there's nothing stopping you from committing your dividends to acquiring more shares.

Most large-cap Canadian stocks let you reinvest your dividends automatically — a simple feature that can be turned on with the click of your mouse. By doing so, you'll accumulate a gradually larger position.

How it could double your TFSA balance

Reinvesting dividends can help you double your TFSA balance faster by amplifying your returns.

If your shares are going up, then each dollar in dividends spent on shares means a growing position that's simultaneously increasing in value. The end result could be doubling your money faster than would otherwise be possible.

Consider a dividend re-investor who holds shares in **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

With a 3.86% yield, $10,000 worth of TD Bank shares throw off enough in dividends to buy about five new shares a year at a price of $76. Letting the dividends flow out, of course, adds to any capital gains you earn by investing in TD stock. But by reinvesting the dividends, you re-direct that cash back to shares that have been increasing in value considerably over the past 10 years. So, should past trends continue into the future, you will have increased your return by re-investing dividends.

As for whether past trends *will* continue into the future, that's impossible to predict. However, it *is* well known that TD is the fastest growing of Canadian banks. With an ultra-profitable U.S. retail business, TD puts out earnings-growth metrics — often approaching 10% year over year — that other Big Six banks can't match. The bank has also been raising its dividend payout by 9.6% a year on average — another factor on top of capital gains and dividend reinvestment that can boost total returns.

Foolish takeaway

According to the law of 72, it takes about 7.2 years to double your holdings if your average return is 10%. However, if your investments are getting 10% between dividends and capital gains, you can increase the total return by reinvesting the payouts. And with modern discount brokers, you can turn on reinvestment with the click of a mouse. It's a click you might want to make, as it can help you maximize your TFSA balance faster.

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