



## Turn Your \$6,000 TFSA Contribution Into \$100,000 in 7 Years

### Description

Tax-free savings accounts (TFSAs) are gaining considerable popularity as Canadians realize that they provide a tax-sheltered environment in which to create wealth and achieve financial independence.

They do this by removing the impact of taxes on investment returns, as all capital gains and dividends received are essentially tax-free for the life of the investment.

Notably, there are no restrictions on withdrawals meaning that you can access your funds any time you need them. By removing the corrosive effect of taxes on returns, you can accelerate the rate at which wealth is created.

Nevertheless, many account holders are using the investment vehicle to hold [low growth](#) investments such as cash, which means they are failing to take full advantage of the benefits offered by a TFSA.

These include the ability to create considerable wealth at a rapid clip by adding less volatile growth stocks with steadily growing dividends and dividend reinvestment plans (DRIPs), allowing shareholders to acquire additional shares at no extra cost.

There's an annual limit set for the maximum amount that an eligible person can contribute to a TFSA. For 2019 it was set at \$6,000, and it's expected to be same amount for 2020.

Any contributions in excess of this figure are subject to penalty tax, but account holders can [expand the amount](#) they can contribute without those contributions being punitively taxed.

This occurs when an investment that's grown at a solid clip where its value exceeds the \$63,500 cumulative limit since TFSAs were introduced in 2009 and is withdrawn from a TFSA. That amount becomes the new allowable maximum contribution and be recontributed at the start of the next calendar year.

### Top defensive growth stock

A top stock to hold in a TFSA and accelerate the rate at which wealth is created is **Brookfield Renewable Partners** ([TSX:BEP.UN](#))([NYSE:BEP](#)).

The company has a long history of boosting its distribution, which the partnership has hiked in past years, and provides a DRIP that allows unitholders to reinvest their distributions to acquire additional units at no cost.

That in turns allows them to access the power of compounding and increase the speed at which they can create wealth and achieve their investment goals.

Brookfield Renewable has a solid history of delivering value for investors from its globally diversified portfolio of renewable energy assets that hold 18,000 megawatts (MW) of capacity across 25 countries.

Similar to other energy utilities, it possesses a wide economic moat, which, along with steep industry barriers to entry and inelastic demand for electricity protects its earnings, endowing it with solid defensive characteristics. This makes Brookfield Renewable highly resistant to economic downturns, making it an ideal defensive stock.

For the third quarter 2019, funds from operations grew by 30% year over year to US\$0.43 per unit and proportionate EBITDA shot up by 9% to US\$301 million, although Brookfield Renewable reported a net loss of US\$0.17 per unit compared to US\$0.18 a year earlier.

Earnings will continue to grow at a solid clip as Brookfield Renewable's power generating capacity expands. The partnership through its subsidiary **TerraForm Power** acquired 322 megawatts (MW) of renewable power assets in the U.S., a 200MW portfolio of operating wind facilities in China and is advancing a 151MW pipeline of renewable energy projects.

Over the last 10 years, Brookfield Renewable has grown by a whopping 314% in value after including distributions, which is 15% on an annualized basis. That grows to 447%, or 18.5% annually if Brookfield Renewable's distributions were reinvested in additional units, highlighting just how easy it is to boost the rate of return by unleashing the power of compounding.

## Foolish takeaway

While past performance is no guarantee of future returns, for the aforementioned reasons, there is every likelihood that Brookfield Renewable will continue to deliver considerable value for investors.

If you were to invest your 2019 \$6,000 TFSA contribution in Brookfield Renewable, add \$6,000 annually for the next years and reinvest all distributions, you could accumulate \$107,000 in as little seven years.

That highlights just how rapidly wealth can be created when using a TFSA and accessing the power of compounding when making modest contributions, making now the ideal time to start.

## 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.)

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