Millennials: How to Build a $1 Million TFSA

Description

Since its inception, the Tax-Free Savings Account (TFSA) has attracted special attention because of the way some investors have managed to rack up huge tax-free gains.

The cumulative contribution room for a TFSA now sits at $63,500 compared to the $5,000 it started off with back in January 2009. Some investors have managed to accumulate over $1 million in their TFSAs this decade. Is this a goal that Foolish investors should set in the 2020s?

The path for young investors

Before we get into how to build a $1 million TFSA in the 2020s, it's worth discussing how young investors should be tackling this question.

With the current rate of contribution increases, investors in their 20s and 30s who can consistently contribute should be able to build a $1 million TFSA by the time they retire.

Investors with a time horizon that stretches over 25 years can become a TFSA millionaire with discipline and wise investment. That aside, let's explore how the dream of a million-dollar TFSA has been achieved in the 2010s.

Get comfortable with equities

Investors looking to hit home runs in their TFSA will need to be comfortable with investing in the stock market. ETFs have gained popularity over the past decade as baseline index funds have consistently outperformed mutual funds, but those looking for bigger growth in their TFSA will need to look to more aggressive options.

The rise of the cannabis market has been huge for millennial investors, who have flocked to this sector in droves in comparison with other demographics.

For example, at its peak, the **Horizons Marijuana Life Sciences ETF** nearly hit the $25 price market compared to its starting price levels of roughly $10. **Canopy Growth**, the largest cannabis stock by market cap on the TSX, was at a comparable price level to this ETF In late 2017 and hit the $70 mark the very next year.

A high-risk approach

When you're trying to achieve a lofty goal, it is always helpful to study the success stories of the past. *The Financial Post* published a report on TFSA millionaires all the way back in 2015. The report focused on a 50-year old institutional investor who at the time had a $1.22 million balance in his TFSA.

This individual managed to rake in hundreds of thousands of dollars in tax-free profits in his TFSA with "a series of longshots on penny stocks and warrants." This individual was also able to invest in initial public offerings because of his position as an accredited investor.

This investor said that one of his first trades was in **TerraX Minerals**, a junior mineral exploration company that saw its stock rise from under a penny in 2011 and 2012 to over $0.75 in 2014.

However, in this case, the trader in question bought over 30,000 shares for $0.30 and sold at $0.39 per share the very next day.

Investing in junior miners boasts huge potential rewards, but it is incredibly risky. For every TFSA investor who struck it rich with this strategy, there are dozens who have been left holding the bag and taking a steep loss, which is why I advocate for another strategy for Foolish readers.

The best route: play the long game

Instead of taking big gambles to strike it rich in the near term, investors should look to equities with attractive long-term growth potential. And don't sleep on dividend stocks either!

For example, back in the spring I'd focused on **Royal Bank** and **Shopify** as two stocks that have rewarded investors nicely in 2019. These are the kind of equities investors should target as they look to build wealth in their TFSA.

As I'd explained in the beginning of this article, smart investing, time, and discipline will make you a TFSA millionaire over the long haul.

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