



## TFSA Investors: How Long Does it Take to Accumulate \$1 Million?

### Description

Canada is home to 1.3 million millionaires, which represents just 3.5% of the country's population. However, more than half of those millionaires have the bulk of their assets locked in their primary residence, which means very few investors ever accumulate \$1 million in liquid assets like stocks, savings accounts, or bonds.

Traditionally, most millionaires accumulate their fortunes through inheritance, entrepreneurship, or by working their way up the corporate ladder. But, if you're trying to enter this coveted club solely based on investments and an average income, here's what you need to do.

### Use a Tax-Free Savings Account (TFSA)

Before you start investing, the first step is to minimize your taxes by taking advantage of the government's tax shelters for ordinary citizens. The TFSA and the Registered Retirement Savings Plan (RRSP) are both critical instruments for any saver.

Lowering the tax burden on your capital gains and dividend income will make it remarkably easier to reach your goal of a million-dollar nest egg. The next step is to save a meaningful portion of your annual income (say, 17% of the median household income of \$60,000, which is roughly \$10,000), and spread it across these two accounts each year.

### Aim for growth stocks

The next step is to invest your annual deposits into growth stocks, rather than savings accounts or bonds. Assuming you start off with \$10,000 in capital and consistently add \$10,000 in savings every year to the tax-free pots mentioned above, you'll need a rate of return of 13% to reach \$1 million in 20 years.

How realistic is a 13% annual return over two decades? Several well-known growth stocks have surpassed that rate over the past 20 years. Montreal-based information technology consulting firm **CGI Group** has delivered a 14% annualized return since 2000. **Dollarama** has delivered a 30% over the past ten year while

**Shopify** has [compounded at a rate of 72.8%](#) over the past four and a half years alone.

Plenty of other stocks, spread across different industries, have the potential to deliver the 13% annual returns you need to turn \$10,000 into \$1 million within 20 years. But if you're still not convinced, here's how long it would take you to accumulate this wealth based on the entire stock market's average return.

**iShares S&P/TSX 60 Index ETF**, an exchange-traded fund that passively tracks the 60 largest companies on the Canadian stock market, has delivered a 7.2% annual return over the past 10 years. At that rate, you could invest \$10,000 every year and reach \$1 million within 29 years.

In other words, you could start saving when you reach the age of 40 and become a millionaire by the time you've reached retirement. No fancy income, exotic investments, or complex tax loopholes necessary.

## Bottom line

Warren Buffett once said that you don't need to do anything extraordinary to get extraordinary results. I like to think this is what he meant. The power of compounding can help the ordinary person who is saving an ordinary amount of an average income climb into the exclusive club of millionaires.

All it takes is a few decades, a handful of well-picked growth stocks, and some tax-efficiency.

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