



Use Your TFSA to Become a Millionaire

Description

A Tax-Free Savings Account (TFSAs) is your ticket to becoming a millionaire and accumulating a tax-free \$1 million. A key benefit of TFSAs is that they are tax-sheltered, essentially meaning that all capital gains, dividends, and interest are tax-free for the life of the investment. That removes the significant impact that taxes can have on creating wealth.

Reaching a million-dollar balance

The Canadian government announced last week that the TFSA contribution limit for 2020 would remain at \$6,000, unchanged from 2019. That takes the total amount that an eligible Canadian can contribute to a TFSA since it was introduced in 2009 to \$69,500. On the surface, reaching a million-dollar TFSA balance appears daunting, with it more than 14 times the accumulated contribution limit.

This has led some investors to believe that it can only be achieved through aggressive stock trading and investing in speculative high-growth stocks. Aside from the considerable risks involved, with it highly likely that many investors would lose their capital, thereby preventing them from reaching the magic number, it can also attract the attention of the Canada Revenue Agency (CRA). The CRA is targeting accounts where there is frequent trading activity and large balances, because it could be construed that they are stock traders conducting a business and using a TFSA to avoid taxes.

It is therefore preferable to take a [disciplined](#) long-term approach by acquiring high-quality, lower-risk, dividend-paying growth stocks, which have dividend-reinvestment plans (DRIPs). Companies with long histories of regularly growing dividend payments possess quality recession-resistant businesses, wide economic moats, and strong financial positions, making them ideal buy-and-hold investments. Reinvesting any income paid through a DRIP means that you can access the power of compounding. It is also important to start as soon as possible to ensure there is enough time for the magic of compounding to work.

A diversified basket of five quality dividend-paying stocks composed of **Royal Bank of Canada**, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), **Fortis**, **Brookfield Infrastructure Partners**, and **Northwest Healthcare Properties REIT** can reduce volatility and investment risk while generating solid returns.

All five possess DRIPs and have long histories of regular dividend hikes, giving them juicy yields of around 4% and up to 6% for Northwest Healthcare.

While past performance is no guarantee of future returns, that portfolio of stocks has an average annual return of around 12% over the last 10 years if all dividends received were reinvested. If you had never made a TFSA contribution and invested the maximum amount of \$69,500 at the start of 2020, added \$6,000 annually, and reinvested all dividends, you would have a million-dollar TFSA balance in just under 20 years.

All five companies possess wide economic moats, strong defensive characteristics, and operate in heavily regulated industries with steep barriers to entry, protecting them from competition. This makes them highly resistant to economic downturns and allows them to consistently grow earnings over the long term, supporting the sustainability of their dividends and further increases.

Suncor has been the worst performing of the five because of oil's long-term slump. It has, however, been one of the few energy companies to have maintained its dividend since oil collapsed and is likely to generate solid returns as oil rallies higher in 2020. Suncor is also resistant to lower oil for several reasons, including the integrated nature of its upstream and downstream operations. Lower crude makes the feedstock for its refinery operations cheaper and more profitable.

The energy major is also capable of refining a significant portion of its oil sands output. That means it is not vulnerable to volatile Canadian heavy crude prices, with the discount applied to the Western Canadian Select benchmark reaching record levels during the second half of 2018. This saw Suncor generate [record earnings](#) for its refinery operations and eliminates a key threat to the profitability of oil sands operators.

Foolish takeaway

A disciplined approach, using quality dividend-paying stocks and accessing the power of compounding by reinvesting dividends, is the key accumulating a million-dollar TFSA balance. Not only does it reduce investment risk, but by starting as soon as possible, you can reach your investment goals sooner.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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1. Business Insider
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