Supercharge Your TFSA Portfolio in 3 Simple Steps

Description

A Tax-Free Savings Account, commonly referred to as a TFSA, is an incredible tool to achieve financial independence. If you don't have one, open one today.

Opening a TFSA isn't the final step. To take advantage of its tax-shielding powers, there are a few simple steps to follow. You'd be surprised how many Canadians fail to take these measures. Don't miss out.

Know what matters

Everyone knows that saving money is important. Because your savings grow over time, the money you invest today will be worth more in the future. But how much should you actually be saving? How much will that money actually be worth?

There are only a few variables that matter when it comes to investing: contributions, rate of return, and years invested.

That first variable, contributions, is the one you can control the most. After all, it's up to you how much you invest and how frequently.

In a TFSA, there's a limit to how much you can invest. The annual maximum was $6,000 in 2019, but because unused contribution room rolls over, your lifetime contribution room is $63,500.

Just because there's a contribution limit doesn't mean you can't get rich with a TFSA. All you need to do is establish momentum.

Establish momentum

The best hack in the history of investing is automated contributions. You can establish automatic, recurring deposits that transfer money from your bank account to your TFSA. You can decide how much is withdrawn, and how often. For example, if you opted for $500 per month, you'd hit the $6,000 annual maximum by the end of the year.

Automatic contributions *force* you to save. It's no longer your decision. It's by far the best method for investing more each month.

Once you have automatic investments established, the next step is to fill your portfolio with stocks that can maximize your rate of return.

Think ahead

Since 2006, the **S&P/TSX Composite Index** has returned roughly 43%. That figure would be a bit higher when accounting for dividends, but however you slice it, the TSX has generated a paltry annual return.

Not every stock has performed poorly, however. Stocks like **Enbridge Inc**, **Shopify Inc**, **Canadian Utilities Limited**, and **Bank of Nova Scotia** have produced double-digit returns for years, often decades.

Here's how powerful choosing the right stocks can be.

If you invest the maximum $6,000 per year with your TFSA, earning a 6% annual return, you'll wind up with $230,000 after 20 years. If you earned 8% per year, you'd have $300,000. With a 10% rate of return, however, you'd accrue nearly $400,000.

With a TFSA, the most important step is to establish recurring contributions. Your next step should be finding stocks that can build long-term wealth.

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