TFSA Investor Alert: How to Turn $20,000 Into $250,000 in 20 Years

Description

In 2009 the government launched the Tax-Free Savings Account with the idea of giving Canadians a new tool to help put cash aside for a variety of financial projects.

The TFSA contribution allowance has increased each year to a total of $63,500 in 2019. Beginning in 2020, the TFSA limit will rise another $6,000 per person.

Unused contribution space can be carried forward, giving people the flexibility to make larger deposits in years when they have more money. A big bonus at work or a gift from a family member could help catch up missed contributions from previous years.

The flexibility of the TFSA is attractive for young investors and families who might need to tap the funds for emergency purposes or to make a downpayment on a property.

Older investors like the TFSA for its tax-free benefits. Any income generated can go straight into your pocket without having to set some aside for the Canada Revenue Agency.

Savers who decide to use the TFSA as a pension plan can allocate interest and dividend payments to acquire new investments. This harnesses a compounding process that can create a large retirement fund over time.

Dividend stocks have delivered some of the best returns. Let’s take a look at one company that might be an interesting pick today for a TFSA retirement plan.

Royal Bank of Canada

Royal Bank of Canada (TSX:RY)(NYSE:RY) earned nearly $13 billion in profits in fiscal 2019.

The bank is not only Canada’s largest financial institution by market capitalization, it is also the biggest company on the TSX Index.

Royal Bank has the size and financial might to make strategic acquisitions to drive growth, as we saw when it spent US$5 billion in 2015 to buy California-based City National. Royal Bank also has the flexibility to invest in new technology as it moves more customers to digital platforms.

Younger Canadian are increasingly comfortable using mobile banking apps to manage their finances and the banks have to adapt to ensure they remain relevant and can compete with non-traditional competitors.

Royal Bank raises its dividend regularly and ongoing hikes should be in line with anticipated earnings-per-share growth of at least 7% over the medium term.

The Q4 2019 results came in weaker than expected and the stock has pulled back a bit as a result. Additional near-term downside could be on the way, especially if the overall stock market gives back some of the 2019 gains. As a result, investors might get a better entry point in the coming weeks.

However, if the stock falls much further, the drop should be viewed as a buying opportunity. Waiting for the bottom could result in missed dividends or potential gains on a surprise bounce.

Returns?

The stock has performed well for loyal shareholders. A $20,000 investment in Royal Bank 20 years ago would be worth more than $250,000 today with the dividends reinvested.

The bottom line

Royal Bank is one of many TSX Index stocks that have helped Canadian investors save significant funds for retirement.

A balanced portfolio is always recommended and Royal Bank should be a solid pick to start a TFSA retirement fund.

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