

Millennials: Yes, a \$2 Million TFSA Is Possible — Here's How

Description

Although my generation is plagued with difficulties like sky-high education costs, rapidly rising real estate (in Canada's three largest cities, anyway), and expensive child care, people under 40 can at least count on one big advantage compared to older folks.

They're in the unique position to really grow their TFSAs. In fact, as long as stock markets cooperate and younger people are fairly aggressive savers, I'd argue the average millennial should almost expect to get to \$1 million in their TFSA.

I believe that a \$2 million TFSA is a lofty goal for younger millennials, but one that can be achieved. Even after accounting for inflation, that should easily be enough for a middle class retirement a few decades from now.

Here's how you can get your own \$2 million TFSA. It's probably not as hard as you think.

The numbers

Let's follow the path of a hypothetical millennial saver, a 29-year-old who has graduated university, has a secure job, and has repaid her student loans. She's ready to do some serious saving.

The first step is for our imaginary investor to contribute the maximum allowed to her TFSA, which is currently \$69,500. She'll max out her contributions going forward too, which we'll assume stay at \$6,000 per year. Remember, TFSA limits rise with inflation, so the maximum allowed investment each year will increase over time.

Our fictional investor has 36 years until a traditional retirement age, so we'll enter that as her time horizon.

You'll be surprised at the results. She will need a mere 7.5% return — 7.48% if we're being really precise — to crack the \$2 million threshold. That isn't so hard to accomplish.

Here are two ways our imaginary investor can earn enough to get to the magical \$2 million TFSA mark. In fact I wouldn't be surprised if she ends up doing even better.

Great long-term choices

Let's look at a couple of ways a millennial can earn that magical 7.5% return.

One way is to focus solely on the <u>dividend yield</u> and buy a stock paying more than 7.5%. Dividends can then be reinvested, and any capital gains are just a bonus.

Rogers Sugar (TSX:RSI) has a sustainable 7.5% payout. The company has maintained the distribution ever since it switched from an income trust back to a regular corporation, and has even paid a couple of special dividends along the way.

Yes, the sugar business isn't about to experience a big new growth phase. It's a mature business if there ever was one. But it also comes with many advantages, including little competition, protection from imported sugar, steady demand, and predictable earnings.

Rogers shares are also somewhat depressed lately, driven down by lackluster results from the company's new maple syrup business. Although demand still looks strong for this alternative sweetener over the long-term, a glut in short-term supply has driven prices lower. That's bad news for Rogers, but good news for potential shareholders who want a bargain.

For such a boring stock, Rogers Sugar has delivered some nice returns. Since 2003, Rogers shares are up 12.2% annually if you reinvested dividends. That's enough to turn a \$10,000 original investment into something worth \$64,789 today.

Another company poised to deliver solid returns going forward is the smallest of Canada's big three telecoms, **Telus Communications** (TSX:T)(NYSE:TU).

Telus is the epitome of a steady performer. The company is slowly adding more wireless, home phone, cable, and internet subscribers. It increases revenue by jacking up prices to current customers. The firm is also expanding into interesting ancillary business, including technology for health care and alarm systems.

I also like Telus's decision to stick to telecom rather than expanding into media. Television channels and radio stations are convenient sources for content, but ultimately they're an exercise in diworseification.

Telus has been a solid dividend grower over the last two decades, steadily increasing its payout. The current dividend is \$0.5825 per share each quarter, good enough for a 4.6% yield.

Similar to Rogers, Telus has delivered surprisingly good long-term returns. Including reinvested dividends, the stock has returned 11.42% each year over the last 15 years, including reinvested dividends, which is easily enough to hit our \$2 million TFSA goal.

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nelsonpsmith



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