TFSA Investors: How to Turn Your $10,000 Into $100,000

Description

The Tax Free Savings Account (TFSA) is one of the best investment vehicles available to Canadians. It enables you to grow your investments tax free without any withdrawal penalties.

It is quite simply one of the best ways to grow your wealth without having to cough up a portion of your gains to the Canada Revenue Agency.

In 2020, the TFSA contribution limit is $6,000 and the total lifetime contribution room available in 2020 for someone who has never contributed is $69,500.

Investments that grow tax free can yield significant returns. At first glance, turning $10,000 into $100,000 seems like a daunting task. Can investors realistically grow their wealth by 10 times in their lifetime? Absolutely.

A first-time TFSA contributor who deposits $10,000 in their account can reach this lofty goal in a mere 25 years if they achieve a 10% rate of return. This is entirely plausible.

This means that a 20-year old could have turned that initial deposit to $100,000 by the age of 45. However, that's without contributing a single penny afterwards.

If you continue to contribute up to the TFSA limit on a yearly basis, you would reach your $100,000 goal much sooner. Assuming the annual contribution limit remains at $6,000 per year and an annual 10% rate of return, investors would have $100,000 locked away in 10 short years. To put this into perspective, a 20-year old, can have $100,000 in their account by the time they're 30!

Let's continue with this scenario over the course of 25 years. By the age of 45, investors would have built a hefty nest egg just north of $620,000 in their account.

This demonstrates the effect of compounding and why it's important for investors to begin making use of the TFSA at an early age. Saving $6,000 a year is achievable and should be at the top of every young investor's goal list.

How can one achieve 10% annual returns? It's quite simple.

One way to achieve this is to invest in a company that pays out a dividend and is growing the business at a decent rate. There are a myriad of investment options that fit the bill.

Once such example is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). Canada is arguably, the safest banking jurisdiction in the world and the big banks have paid out uninterrupted dividends for over 100 years.

Over the past 10 years, TD Bank's share price has increased 125.7% for an average return of 12.5% annually. On share price appreciation alone, you would have achieved 10% annual returns.

However, this performance is magnified once you include the dividend. Over the same 10-year span, TD Bank would have returned 221% for an average return of 22.1% annually. This is more than double the 10% target and would have led to an expedited growth in wealth.

Had you invested $10,000 in Toronto-Dominion Bank at the beginning of the decade, it would be worth approximately $67,000 today. Similarly, had you maxed out your TFSA contributions every year, you would have ended the decade with about $218,000 in your account. Imagine yourself as a 20-year old entering your 30s with over $200K of tax-free investments.

The best part? You could have achieved this by investing in a single stock — a blue-chip nonetheless, and a stock that's one of the safest investments on the **TSX Index**.

Investment doesn't have to be difficult. The hard part is committing to those annual TFSA contributions — a great New Year's resolution for investors.

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3. Investing

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