Is a $1,000,000 TFSA a Realistic Goal?

Description

Reaching $1,000,000 in savings can be an appealing goal for many investors, especially for those with a Tax-Free Savings Account (TFSA). With a large nest egg at retirement, investors can simply take all the money out as they wish or invest it into stocks that pay dividends to help generate recurring income.

Either way, growing your savings to that threshold can open up many opportunities with how you want to fund your retirement years and how you want to best utilize your savings.

The big challenge, however, is getting to the $1,000,000 mark. There are multiple strategies that you can deploy in growing your portfolio's value over the years. Let's assume that you can average an annual 10% return from your investments through a combination of capital appreciation and dividend income.

In order to reach that lucrative goal while averaging 10% returns, here's what your balance would have to look at during various stages of your life:

Age	Balance
65	$1,000,000.00
55	$385,543.29
45	$148,643.63
40	$92,296.00
35	$57,308.55
30	$35,584.10
25	$22,094.93

The great part of the above table is that you have until your 40s before you need to come up with $100,000 in order to reach $1,000,000. And if you're able to invest $22k by the age of 25, you could invest all that in one or two stocks and just watch your portfolio grow in value. However, if we were to expect annual returns of a more modest 5% per year, this is what those numbers would look like now:

Age	Balance
65	$1,000,000.00
55	$613,913.25
45	$376,889.48
40	$295,302.77
35	$231,377.45
30	$181,290.29
25	$142,045.68

That's a significant difference that five percentage points can make over the years, underscoring just how important having a dividend stock can be to help boost your total returns.

Any extra bump up can have a lasting impact on your portfolio's growth. Amassing more than $140k at the age of 25 is a tall task for anyone and I'd wager makes reaching $1,000,000 not a realistic goal.

Dividends are key

Whether you invest in one, five, or 10 stocks, an important consideration is dividends. Take **Royal Bank of Canada** (TSX:RY)(NYSE:RY) as an example.

The stock has risen 38% in value over the past five years, which averages out to a compounded annual growth rate of 6.7%, which would come short of even the more optimistic 10% growth rate that we need every year to make hitting $1,000,000 realistic.

That 6.7% is also during a bull market when things are going very well, meaning that we should probably expect an even lower CAGR from RBC to balance out the not-so-good years on the markets as well.

However, if we add RBC's 4% dividend into the equation, our annual returns will rise to over 10% per year and even come close to the 11% mark.

In that situation, RBC would be a suitable investment for investors to average double-digit returns over a long period. And since RBC is a dividend growth stock that routinely increases its payouts, investors will be earning more than just 4% in dividends as long as they hang on to the stock and assuming the company continues hiking its dividend payments.

Bottom line

Reaching $1,000,000 is definitely a realistic goal for TFSA investors. Although averaging double-digit returns may be a lofty target, once you include dividends into that equation it becomes a much more attainable goal — and that can make RBC a solid stock on which to your portfolio.

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3. Investing

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