TFSA Investors: Should You Aim for a Million?

Description

Should investors aim to hit the million-dollar Tax-Free Savings Account (TFSA) milestone?

The answer largely depends on your age. If you're a relatively young investor who's more than two decades away from retirement, it makes sense to take on more risk so you can maximize your long-term return potential.

For today's young investors, a million-dollar TFSA isn't a pipe dream.

Young investors who make regular contributions while using the proceeds to invest in stocks systematically (that means no timing the market!) while steering clear of TFSA crimes will more likely than not hit the million-dollar TFSA milestone by the time they hit retirement age.

Although a million-dollar TFSA seems far-fetched for many beginner investors, it may actually be closer to an inevitability for many when taking into consideration the profoundly powerful effects of long-term tax-free compounding made possible by a TFSA.

Thus, aiming for a million with your TFSA is a realistic goal if you've got an extremely long time horizon that spans decades.

If you're looking to aim for a million in the quickest possible time, however, you may not only reduce your chances of reaching your goal over the long-run, but you could also be setting unrealistic return expectations for yourself that will lead you down the route of speculation.

While you could undoubtedly bag the next big multi-bagger (it happens all the time), it's not at all prudent to invest your entire TFSA nest egg on a few securities with such a high return potential because of the elevated risks you'll take on.

As ironic as it sounds, aiming for a million-dollar TFSA is more likely to prevent you from reaching the milestone than if you just stuck with the boring buy-and-hold strategy that includes stocks as simple and well-known as **CN Rail** (TSX:CNR)(NYSE:CNI).

The smartest minds of our generation, including Bill Gates, lean toward investing in the “boring” businesses despite the modest rewards potential relative to growth stocks.

While you’re not going to triple your money over a year or two, CN Rail can provide better-than-average risk-adjusted returns over prolonged periods.

CN Rail has a wide moat that can protect modest, but still above-average returns with a higher degree of downside protection relative to the averages.

Through the eyes of sharp investors, it’s not about trying to get the most return as soon as possible; rather, it’s about scoring the best risk/reward trade-off.

For Canadians investing with their TFSAs, they shouldn’t think about aiming for a million. Rather, they should invest to maximize their risk-adjusted returns for optimal results that will allow one on the easy route to a million.

While it may be a good idea for younger investors to mix in a few hyper-growth moonshot bets, a majority of one’s TFSA capital should be invested to minimize the chance of significant losses. A dollar within a TFSA is worth far more than a non-TFSA dollar, after all!

So, one should strive to invest wisely with their TFSAs and not give themselves unrealistic deadlines of hitting specific dollar amounts on the road to a million.

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