How to Invest the $6,000 TFSA Contribution Increase and Turn it Into $150,000

Description

Canadian savers are increasingly taking advantage of the Tax-Free savings Account (TFSA) to build stock portfolios as part of their overall retirement strategy.

The TFSA is a great tool for Canadians to set aside cash for the golden years in addition to their RRSP savings. In the old days, most people relied on a company pension, CPP, and OAS to cover their expenses in retirement. Today, more people are self-employed as contract workers in the gig economy, meaning they don't have a company pension.

To offset this gap, investing funds in a TFSA can help Canadians meet their retirement savings goals.

The TFSA was launched in 2009, and the contribution limit is now at a maximum of $69,500. The government raised the limit by $6,000 in 2020 and annual hikes are currently set to track inflation, rounded to the nearest $500. Unused contribution space is carried forward.

Where should you invest your $6,000?

The goal with retirement planning is to build the size of the fund over the course of years or decades. This is a buy-and-hold strategy, rather than one hoping to make quick profits trading stocks on a short-term basis.

History suggests that buying top-quality dividend stocks and using the distributions to acquire more shares tends to deliver solid returns over the long haul. The technique takes advantage of the power of compounding. Each new share purchased by the dividends will in turn boost the portfolio's income and acquire even more shares. Over time, the snowball effect can be significant.

Let's take a look at one top Canadian dividend stock that has generated strong returns over the years and should continue to be a solid pick for a diversified TFSA pension fund.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is Canada's number three bank by market capitalization with a valuation of about $90 billion.

The company recently set up a new Global Wealth business unit, effectively removing the wealth management operations from the Canadian banking segment. The decision makes sense after two large acquisitions in the sector increased the size and expanded the capabilities of the bank's wealth management team. This segment is viewed as having strong growth potential and a flurry of wealth management deals by the Canadian banks in recent years suggests the whole industry sees profit opportunities in this part of the market.

Bank of Nova Scotia is also betting big on Latin America. The bank has invested billions of dollars to build a significant presence in Mexico, Peru, Colombia, and Chile. The four countries are the core members of the Pacific Alliance trade bloc and are home to more than 225 million consumers.

The region has banking penetration of less than 50%, providing strong growth opportunities, as middle-class incomes expand and people seek out loans and investment products. The international group already accounts for about 30% of Bank of Nova Scotia's adjusted profits.

The bank is very profitable and has a good track record of raising the dividend. The current payout provides a yield of 4.9%.

A $6,000 investment in Bank of Nova Scotia 25 years ago would be worth about $150,000 today with the dividends reinvested.

The bottom line

A diversified portfolio is always recommended, and the **TSX Index** is home to several top dividend stocks that have generated great long-term returns and should continue to be attractive picks for a TFSA retirement fund.

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