



## TFSA Investors: How to Turn a \$500 Contribution Into \$150,000

### Description

The first step to financial independence is a TFSA. These accounts allow your capital to grow tax-free for life. Withdrawals are also tax-free. That's a big advantage versus RRSPs, which will incur a tax bill upon withdrawal.

Once you open a TFSA, the next step is to build wealth. Most investors rush to find lucrative stocks. That's a [mistake](#). Instead of focusing on stock selection, you should first establish a contribution schedule.

Automated contributions are perhaps the best-kept secret in finance. They're a sure-fire way to build massive amounts of wealth. A \$500 contribution can quickly turn into \$150,000. Let's explore how they work.

### Humans are animals

The first thing to know is that humans are animals. We've built civilizations, cured diseases, and even landed on the moon, but the circuitry in our brains is still thousands of years old. That means our ancient brains aren't always well-attuned to the modern world.

Take saving, for example. We all know that sacrificing for the future is important, but most of us fail to do it. A lot of this failure can be attributed to the way our brains are wired. In the wild, long-term planning is a luxury. Those that maximize short-term gain are often the ones that remain alive to see another day.

The modern world is different, of course. Most of us will never face off with a predator. If we forego the opportunity of food, we'll likely get another chance in a few hours, possibly minutes. Our animal brains simply aren't suited to saving for decades at a time.

But that's okay! You can actually *hack* your brain into submission using a few simple tricks.

Behavioural psychologists have identified a phenomenon known as the *default choice*. This is the

choice you'll wind up with if you opt to do nothing at all. If I give you a chicken sandwich, and then say that you must inform me if you want to trade for a turkey sandwich, your default option is the chicken sandwich, for if you do nothing, that is the sandwich you'll end up with.

Most of the time, humans will choose the default option. Maybe we're lazy, or maybe we're fearful of change. Whatever the reason, researchers have proven that humans naturally tend toward the default option, even if it's not in their self-interest.

What's your default option when it comes to contributing to your TFSA? If you do nothing, you'll contribute nothing. Millions of Canadians save little to no money in their TFSAs, and when they do, it's usually on an irregular basis.

## Game the system

Now it's time to game the system. Nearly all TFSAs allow you to establish *recurring deposits*. For example, you can have \$100 per week transferred from your bank account to your investment account. Once established, you don't have to lift a finger for the transfers to occur. This becomes your default option. You actually have to *expend* energy to avoid investing each and every week.

Establishing recurring deposits will make it significantly more likely that you'll meet your long-term investment goals. It's a simple set-it-and-forget-it scenario.

In 2020, the annual maximum TFSA contribution is set at \$6,000. That's \$500 per month. If you earned 10% annual returns and established recurring deposits of \$500 per month, you'll reach \$150,000 in just 13 years. After 30 years, you'll exceed \$1 million!

Investing is a simple game. The only ingredients are contributions, rate of return, and time.

For time, all you have to do is wait. For contributions, simply establish recurring deposits. Increasing your rate of return is the toughest part, but a bit of research can go a long way.

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**Author**

rvanzo

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