TFSA Investors: How to Turn $6,000 Into $600,000

Description

The Tax-Free Savings Account (TFSA) is the perfect tool for you to save huge amounts of taxes over a lifetime. What you earn inside *and* all withdrawals are tax free!

If you've never contributed to a TFSA, you could have as much as $69,500 of contribution room this year.

Regularly save to invest

The TFSA is a savings tool before it's an investing tool, which is why there's more contribution room every year. Therefore, it's key to continue making maximum TFSA contributions every year to take full advantage of the tax-free compounding.

How to turn a $6,000 TFSA into $600,000

Let's be super conservative and say that you're starting out with a $6,000 TFSA instead of a $69,500 one. How can you turn $6,000 into $600,000?

Here's one way: invest for a very doable 10% rate of return and continue to contribute regularly at the maximum to your TFSA every year. Assuming there will continue to be $6,000 additional room for your TFSA each year, you'll end up with nearly $650,000 in 25 years.

If you can get a 12% rate of return (which is still very achievable), you'll get to the $600,000 goal in 22 years.

Getting +10% returns

One stock that is very likely to deliver a long-term rate of return of over 10% from current levels is **Manulife Financial** (TSX:MFC)(NYSE:MFC).

Manulife won't report its Q4 2019 results until next week, but projecting from its year-to-date results, its 2019 earnings should have more than recovered from the financial crisis of 2007/2008, before which it traded at a P/E of more than 15. Assuming this is a fair P/E for Manulife stock, it's trading at a stupefying discount of 44%.

But let's be super conservative again and assume a more reasonable P/E of 12. The stock should trade close to $36 for 33% upside.

At $26.77 per share as of writing, the stock is absurdly cheap, trading at a price-to-earnings ratio (P/E) of less than nine. The life and health insurer is estimated to increase its earnings per share by 8-13% per year over the next three to five years. Therefore, the stock shouldn't be this cheap.

That said, the stock may experience dips in the near term due to the impact of the coronavirus outbreak. In the late 2018 market correction, Manulife stock fell to $18 and change per share. Even if it corrected to the low the $20-24 per share level, it'll still be a great time to buy on dips for long-term investment.

Currently, Manulife stock provides a dividend yield of 3.7%, which adds to the total returns potential of the stock. Assuming no P/E multiple expansion and a conservative 8% growth rate, the dividend and growth already suggest long-term total returns of almost 12%!

The company's payout ratio is estimated to be roughly 32% based on the current quarterly dividend of $0.25 per share (equating to an annual payout of $1 per share). Therefore, its dividend is very secure.

Investor takeaway

By saving regularly and buying stocks like Manulife (i.e., quality dividend stocks that are discounted and have stable growth potential) in your TFSA and aiming for a return of more than 10% per year, you will eventually get to a $600,000 TFSA portfolio.

Here are three other quality dividend stocks on sale that you can consider for +10% total returns in your TFSA. They offer safe passive income with yields of about 3-5%.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/07/30
Date Created
2020/02/09
Author
kayng