Turn a $69,500 TFSA Into $1 Million by Doing This

Description

We know that the Tax-Free Savings Account (TFSA) is hugely popular among Canadians. The TFSA withdrawals are tax-free, and the maximum contribution limit for this account stands at $69,500. So, how do you allocate funds to maximize returns?

In case you are closer to retirement, it is prudent to invest in high-dividend-yielding, large-cap stocks with strong fundamentals and robust cash flows. Retirees and risk-averse investors can consider investing in blue-chip stocks, such as **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

A $69,500 investment in CIBC will generate about $3,635 a year in tax-free dividend income, considering the stock's forward yield of 5.1%. Investing in dividend stocks will ensure a stable stream of recurring income. Due to CIBC's large size, its cash balance of $198 billion, and a payout ratio of just over 50%, the banking giant has enough room to increase dividend payouts over the years.

However, in terms of absolute returns, CIBC has underperformed broader markets. In the last five years, CIBC has gained just under 20% and has lagged broader indexes such as the S&P 500. These returns are safe but underwhelming.

Investing in growth stocks

For investors with a high-risk appetite, growth stocks are an attractive option over the long term. If you had invested $69,500 in Wall Street's tech giant, **Amazon**, 10 years back, the investment would have ballooned to a massive $1.2 million.

You need to identify stocks that have enough room to grow sales at a fast rate over the next decade. Recent Canadian tech IPOs, such as **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Lightspeed** (TSX:LSPD), provide investors with an opportunity to exponentially grow their wealth.

Shopify stock went public in 2015 and has already returned over 2,500% since then. Analysts expect Shopify to grow sales by 44.9% in 2019 and 36% in 2020. Despite a 50% drop in earnings in 2019, analysts expect the bottom line to increase by a massive 389.5% in 2020.

Shopify is set to benefit from its cloud-based multi-channel commerce platform, which targets small and medium enterprises (SME). The company offers subscription services and merchant solutions for businesses. SMEs can manage products and the inventory process as well as payments on Shopify's integrated platform.

Lightspeed is another Canada-based, high-growth tech company. It went public in March 2019 and has more than doubled investor wealth. Lightspeed is also targeting the SME space and offers cloud-based, point-of-sales solutions.

LSPD services are available in 74,000 customer locations to help them streamline operations and improve the bottom line. LSPD is focused on the retail and restaurant space in North America and Europe. In 2019, the company's gross transaction volume touched $20 billion, up from $13.6 billion in the prior year. Analysts expect LSPD to grow sales by 55% in fiscal 2020 and 52% in 2021.

The verdict

Growth stocks are volatile, as they trade at a premium valuation. Any earnings or revenue miss, or even a less-than-impressive guidance, will result in a market sell-off. Lightspeed stock lost 13% in market value after the company missed earnings estimates in the December quarter.

Shopify and LSPD lost significant market value between September 2019 and November 2019 after investors were concerned over expensive valuation metrics for these stocks. Shopify is currently valued at 37 times sales, while the market cap-to-sales ratio for LSPD is 27.

As expected, growth stocks have a high beta and grossly underperform markets in a sell-off. However, over the long-term horizon, the two growth stocks have the potential to make you a millionare.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:LSPD (Lightspeed Commerce)
5. TSX:SHOP (Shopify Inc.)

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