TFSA Investors: Turn $69,500 Into $1 Million in Just 25 Years

Description

To many, the Tax-Free Savings Account (TFSA) is a great way to save some money on taxes while you save and invest it, but besides that, the TFSA isn't much more.

While that is the gist of what the TFSA does, its real power largely goes unnoticed by the majority of people.

The TFSA is a little over 10 years old now, so it's still relatively new, and investors who have been contributing to it since its inception will not have had that much time to compound their income.

The power and massive advantages of the TFSA will be more evident over longer periods of time, when investors are able to fully employ a long-term investing strategy and watch all that income grow and compound tax free.

As of the 2020 calendar year, the maximum contribution room for TFSA investors who have been eligible for an account since 2009 is $69,500.

For a lot of investors who have made prudent investments and employed good long-term strategies over the last 10 years, the value in your portfolio today could be quite a bit more than that, but for the average, we will just start at $69,500.

If you take the full $69,500 and invest it in the TFSA now, saving just $6,000 a year to contribute to the account and earning an annual return of just 8.5%, in 25 years your portfolio would have more than $1 million in value.

Earning a compounded annual return of 8.5% over a 25-year period isn't going to be easy, but it's not impossible by any means, as Warren Buffett, one of the best investors in the world, has an annual growth rate of more than double that over a period of more than 50 years.

From 1965 until 2018, a 53-year period, Warren Buffett grew his investments at a compounded annual rate of 18.7%, and his company **Berkshire Hathaway** saw its price per share grow by 20.5% annually. This is incredible growth, although investors need to only earn half of that to generate $1 million in 25 years.

For comparison, during that same 53-year period, the S&P 500 grew at a compounded annual growth rate (CAGR) of 9.7%, showing that over the long term, even the market as a whole can grow money at an attractive rate.

If you are wondering how you can aim to earn 8.5% or more consistently, the answer is relatively simple. It all comes down to employing a disciplined long-term investing strategy that sees you buy only the best of the best and add to your positions when the stocks look attractive.

For example, if you had invested in **Brookfield Asset Management** 20 years ago, you would have seen a CAGR in the price of its shares by more than 17.5%, and in the last 10 years its share price has grown at a CAGR of 19.5%.

Canadian Pacific Railway is even more impressive. Since 2001, it's grown its share price at a CAGR of more than 18%, and in the last 10 years it has seen its stock price rise at a CAGR of more than 20%.

While both of these companies are extreme examples, it's clear to see if you buy stocks that are the best of the best and hold them for long periods of time, the potential value these companies can create is unmatched.

So, if you want to build a $1 million portfolio in your TFSA, start investing as early as possible, max out your TFSA contribution room, and focus only on buying businesses you'll want to own forever.

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