TFSA Investors: How to Turn a $6,000 Contribution Into $60,000!

Description

Are you a TFSA investor looking to invest the $6,000 worth of new contribution space you got in 2020?

If so, congratulations on setting a worthy goal.

The sooner you invest money in your TFSA, the more years of tax-free growth and dividends you can ultimately enjoy.

The "tax-free" quality of TFSAs is a huge growth booster, because it empowers you to keep more of your returns, so you enjoy greater compounding. It's for this reason that you could reasonably see a $6,000 TFSA contribution grow to $60,000 — when having that happen outside of a tax-free environment is unlikely. Here's how it could happen.

Method one: Growth

The most obvious method for turning a $6,000 TFSA contribution into $60,000 is to buy a growth stock that turns into an overnight 10-bagger.

One stock Canadian stock that has recently done this is **Shopify** (TSX:SHOP)(NYSE:SHOP). Shopify is a Canadian e-commerce company whose stock had a fantastically successful IPO and has only kept on chugging since then. Since its IPO date, Shopify shares have risen more than 1,900%. At that rate of growth, you could turn $6,000 into $100,000 — never mind $60,000!

Of course, returns that frothy are unlikely to continue over the long term. Shopify's revenue growth has been decelerating since the company went public, so we can expect more moderate returns going forward. Nevertheless, SHOP's run from 2015 to 2020 is a sterling example of what a single, well-timed growth play can do for your portfolio.

Method two: Slow and steady

It’s easy enough to say that you can score a 10-bagger by picking a hot tech IPO at the right moment, but quite another to do it in practice. Nobody knows ahead of time which hyped-up tech stock will soar, and which will sink — just ask **Uber** investors. However, if you’re patient, there’s another way to grow your $6,000 TFSA contribution with little risk — that is, by buying index ETFs.

I know, I know. Index funds will only get you 10% a year in a good year, and that’s assuming you pick one that isn’t saddled with hidden fees. But according to the “rule of 72,” you can double a 10% a year investment in 7.2 years. Going by this rule, it would take fewer than 28 years to turn your $6,000 investment into $60,000. Using a more precise compound annual growth calculation, we get 25.1 years to turn $6,000 into $60,000.

Now, 25 years isn’t a short period of time. Most likely, you’d like to turn $6,000 into $60,000 in, say, 10 years or less. But the approach outlined above has the virtue of not requiring a huge dose of luck. You could simply stash your $6,000 into an index fund like **iShares S&P/TSX 60 Index Fund**, sit on it for 25 years, and potentially watch your single TFSA contribution grow to $60,000.

Of course, even that’s not guaranteed. The TSX’s annualized returns have been lower than 10% over the past decade, and the future is never certain. However, the estimates we’re using here aren’t unreasonable: from 1970 to 2015, the TSX averaged 10.4% a year (including both capital gains and dividends), which is actually slightly more aggressive than you need to make the math above work. So, you never know. Even with ETFs, you may score a 10-bagger if you wait long enough.

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