TFSA Investors: How To Turn Your $6,000 Contribution Into $168,614.62

Description

Many younger folks lament the advantages enjoyed by older generations.

Just look at the difference between the cost of an education 30 years ago compared to today, for instance. Real estate in Canada's largest cities is more expensive than ever, effectively shutting some people out of the market. Daycare costs are also spiralling of control, with some parents forced to pay upwards of $25,000 per year for the privilege of having someone watch their kids.

Most baby boomers didn't really have to deal with these problems, which has helped create a major rift between the two generations.

The good news is there's one advantage the average millennial has over their parents' generation: these younger folks can use compound interest to their advantage inside a Tax-Free Savings Account (TFSA), thereby turning decades of tax-free growth into an impressive nest egg.

In fact, I wouldn't be surprised if there are many millennial TFSA millionaires in 30-40 years.

But first, let's start a little smaller. Here's how just one $6,000 TFSA contribution can turn into something worth $168,614.62. Trust me: accomplishing this is easier than you might think.

Time is your friend

The dirty little secret of saving is this: time in the market is perhaps the most important variable of building wealth.

It's not quite that simple, of course. You still need a robust savings rate to end up wealthy, and your account must generate at least half-decent returns. But there's really no substitute for putting your money to work for a long time.

Say you're a 30-year-old millennial who just put cash to work in a TFSA for the first time in 2020, contributing the yearly maximum of $6,000 into the account. If you earn a 10% compound annual rate of return, you're looking at a nest egg of $168,614.62 by the time you hit the traditional retirement age.

That's a solid amount of money for just one measly contribution.

Now let's look at a similar example, but rather than letting the cash compound for 35 years, you decide to retire at 55 and take the money out then. Your $6,000 still grew pretty substantially, but it's worth only $65,008.24.

See the difference those 10 years makes? This is why it's important to leave your money alone for as long as possible.

How to get there

Okay, so you're convinced. It's time to finally start getting serious about making TFSA contributions.

There's just one problem. Similar to a lot of millennials, you don't have a clue about which stocks to buy.

Personally, I've stuffed my portfolio with some of Canada's best blue-chip stocks, the type of companies you likely deal with every day. I'm convinced that these companies will be able to generate at least 10% annual returns over the long term.

One great stock I own is **Telus Corporation** (TSX:T)(NYSE:TU), one of Canada's dominant telecom stocks. Telus — along with its two major rivals — has a stranglehold on the market, a feature that investors are pretty happy about.

This gives the company plenty of pricing power and translates into healthy profits and the assurance your bill is almost guaranteed to go up every year.

A major factor differentiating Telus from its competition is that it doesn't have a media division. Instead, the company has diversified away from its traditional business by acquiring various assets in the healthcare technology field, as well as buying a call centre in Europe. I like these diversification plays; it's obvious that management put some thought into them.

Telus has delivered terrific returns over the last decade. Including reinvested dividends, the stock is up 390.90% since 2010, which translates into a 17.10% compound annual growth rate.

I'm not sure that investors will be able to enjoy returns that generous over the long term, but I'm still confident the stock can surpass our 10% annual return benchmark.

The stock also offers a 4.3% yield, a payout that has been hiked on a regular basis since 2010. You can load up on shares now, content in knowing the stock will provide steady income for decades to come.

The bottom line

Turning a relatively small TFSA contribution into some serious money isn't that hard. All you need to do is contribute early, leave the account alone, and invest in great stocks like Telus. It doesn't get much simpler than that.

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