



TFSA Investors: How to Turn \$10,000 Into \$1,000,000

Description

Many of the millennial investors I talk to plan to strictly use their Tax-Free Savings Accounts (TFSAs) for their retirement needs.

The strategy certainly makes sense. TFSAs are flexible products that can always be used to fund unemployment or other such financial emergencies. While contribution limits might be smaller than RRSPs, many younger investors struggle to save anyway. They're not anywhere close to maxing out their retirement accounts.

This means that younger investors must make every penny of contributions count. They need to earn consistent solid returns while avoiding many of the [TFSA mistakes](#) that keep people poor.

Let's take a closer look at a simple strategy a younger investor can use to turn one little \$10,000 TFSA contribution into a nest egg of \$1 million. Yes, it really *is* possible.

Start young

The miracle of compound interest is one of the most important concepts in all of finance. I'm convinced that understanding that concept is the catalyst that converts many people from spenders to savers.

Compound interest is even more powerful when you start young. A \$10,000 original investment will grow into something worth \$67,275 if you earn a 10% return and leave it alone for 20 years.

After 30 years at the same rate of return, your investment would be worth \$174,494. And after 40 years invested, the same initial investment would be worth just over \$452,000.

We'd need a little less than 49 years of steady 10% compound annual interest to turn a \$10,000 investment into something worth \$1 million, however, which means that we need to look for stocks with the potential to do a little better.

Pick wisely

If we earn a 12% return on our initial \$10,000 investment, it'll take a little less than 41 years to become a [TFSA millionaire](#). If you're in your mid-20s today, this puts that elusive goal in reach right around the traditional retirement age.

I'm the first to admit building a portfolio that'll achieve a 12% annual return is no easy feat. That would likely represent a big outperformance compared to the broader market, which is something that many really smart fund managers can't accomplish over the long term.

The good news is that it's simpler for the average Joe to outperform compared to a professional fund manager. Regular investors don't have to worry about management fee drag.

Our gross returns are the same as our net returns, especially inside a TFSA. A manager who runs a fund charging a 1% management fee will need to outperform by 1% each year just to offset the fee.

One great stock that's poised to return at least 12% annually going forward is **Pembina Pipeline** ([TSX:PPL](#)). The company has quietly grown into a real force in the oil patch, transporting 3.2 million barrels of oil equivalents every day.

Assets include oil sands pipelines, conventional oil pipelines, natural gas pipelines, and fuel storage facilities. The company has also proposed an LNG export terminal in Oregon, but it still needs approval from state regulators.

Pembina has delivered steady growth even after oil and natural gas prices began to struggle. In fact, if 2020 estimates hold up, the company will more than double EBITDA per share from 2016 to 2020, increasing from \$3.06 per share to up to \$6.50 per share today.

It also has \$5.8 billion worth of growth projects on the go as we speak, ensuring steady growth to the bottom line once they come into service over the next few years.

One of the interesting parts of a potential Pembina investment is how well the stock has performed over time. It has quietly posted absolutely terrific returns, and it's small enough that even relatively small growth projects can still move the needle.

Over the last 15 years, including reinvested dividends, an investment in Pembina has delivered a compound annual growth rate of 15.36%. That easily allows us to surpass our 12% target, although there's no guarantee Pembina can deliver that kind of return going forward.

The bottom line

If you want to turn a modest TFSA contribution into something truly exciting a few decades from now, load up on proven winners with plenty of growth potential remaining, like Pembina Pipeline.

A portfolio stuffed with these names will be uniquely positioned to make all your retirement dreams come true.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
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