



TFSA Investors: Turn \$69,500 Into \$2 Million and Pay Zero Taxes to the CRA

Description

Canada has retirement benefits such as the Canada Pension Plan (CPP) and Old Age Security (OAS). While Canadians can rely on these payouts to fund their retirement, one drawback is the above income sources are taxed by the Canada Revenue Agency (CRA).

Further, you need to find alternate income sources, as just the retirement payouts will not be sufficient to lead a comfortable life for retirees.

The Tax-Free Savings Account (TFSA) is a flexible investment option for Canadians. As the name suggests, any withdrawals from the TFSA will be exempt from CRA taxes.

For 2020, the TFSA limit stands at \$6,000, which means the maximum contribution limit for Canadians is \$69,500.

Thus, if you want to invest \$69,500, how do you ensure that it balloons to over a million dollars by retirement? For example, where should a 30-year-old who might retire at 60 allocate these funds?

For people with a long-term horizon, investing in equity markets is the best bet. The stock market has created massive wealth for long-term investors over the last many decades. TFSA investors can look to add growth stocks such as **Constellation Software** ([TSX:CSU](#)) to their portfolio.

Constellation Software stock has gained exponentially

Constellation Software is engaged in the development and customization of software. It acquires, manages, and builds vertical market software businesses. CSU looks to acquire companies with sustainable revenue growth and profit margins.

The company looks to acquire small businesses in the range of \$5 million and \$10 million. While most tech companies have historically focused on growth, CSU has given equal importance to the bottom line as well.

This business model has served the company well. The stock has gained over 3,300% in the last decade and [close to 7,500% since its IPO](#) back in 2006. A hypothetical investment of \$69,500 in CSU back in March 2010 would therefore have been worth \$2.29 million today.

High valuation metrics

CSU stock is trading at a forward price-to-earnings multiple of close to 33, which might seem expensive at first glance. However, the company is estimated to grow earnings by 18% in 2020 and 16.5% in 2021. Its return on assets stands at 10.1%, while return on equity is 43%.

In the next five years, analysts expect CSU to increase earnings at an annual rate of 19.2%. In the last five years, its earnings were up 16.8% annually and the stock gained 225% in this period.

CSU stock is currently trading 8% below its record high. While the stock movement will be volatile in the short term, the company has created significant wealth since its IPO. Another eye-catching observation is that CSU had managed to hold its own during the financial crisis of 2008.

While most indexes were down 50% in the market crash, CSU stock gained 9.4% in 2007, 4.5% in 2008 and 43% in 2009.

The verdict

Constellation Software has been a winning bet over the last decade and a bit. However, it's not advisable to park all your funds in a single stock.

Investors need to diversify their portfolio and those with a high risk appetite and a long-term horizon can look to add similar growth stocks in their portfolio to help them retire early with more than a million dollars.

CATEGORY

1. Investing
2. Tech Stocks

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1. TSX:CSU (Constellation Software Inc.)

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