



How to Reach \$800,000 in Your TFSA by Investing Just \$500 a Month

Description

Your Tax-Free Savings Account (TFSA) is precious. What you earn inside is tax free for life! So, you want to make the best use of your TFSA contributions.

The 2020 TFSA contribution limit is \$6,000, which comes out to \$500 a month. If you have more contribution room from previous years, all the better.

Additionally, the TFSA contribution limit is going to increase over time. Having a higher contribution room today will let you reach an \$800,000 TFSA sooner.

Assuming you're starting from scratch and contributing \$500 a month to your TFSA, you can reach more than \$800,000 (\$814,988 to be exact) in 23 years by compounding returns at 13% per year.

Right now, thanks to the market correction, you can buy safe dividend stocks with high yields for 13% per year compounded over the long run.

Why BMO stock is down

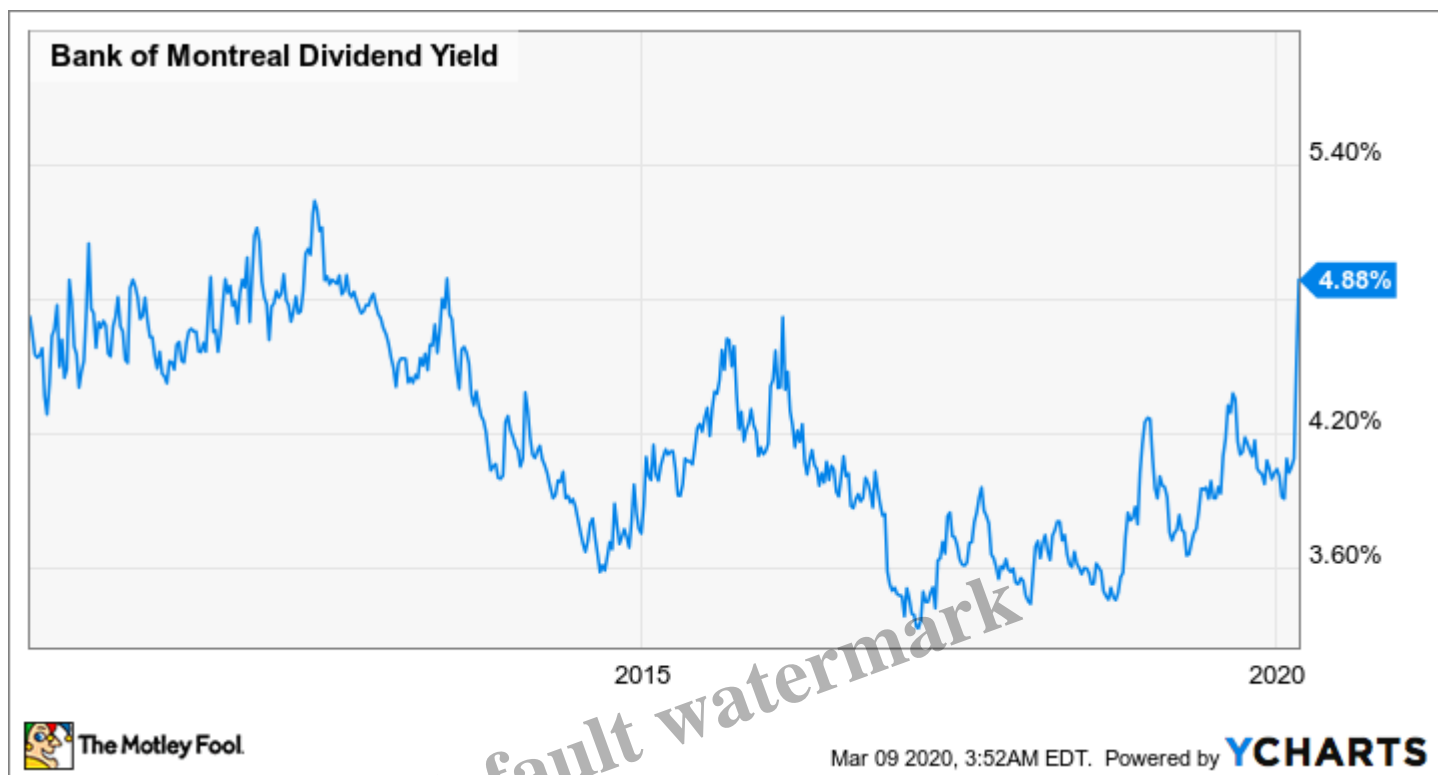
I believe **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) is a dividend stock that can deliver long-term annualized total returns of 13% because of its cheap stock price today.

The Federal Reserve cut the interest rate by 50 basis points to about 1.25% last week, with the Bank of Canada following suit with similar actions. The Bank of Canada points to the spread of the COVID-19 virus across a growing number of countries as the reason for the rate cut.

As a result, combined with the stock market correction, the North American banks, BMO stock included, have fallen sharply. Specifically, the stock has corrected meaningfully by 17% in two weeks.

The BMO stock price of about \$84 per share sets the stock at a cheap price-to-earnings ratio of about 8.8, a discount of about 23% from its normal long-term valuation.

Now is a good time to buy some shares of the big Canadian bank for an elevated yield of 5%. Here's a graph that shows BMO stock's 10-year dividend yield history.



BMO Dividend Yield data by YCharts

BMO's business

Bank of Montreal has demonstrated a strong history of operation. Over the years, it has expanded in the United States, which now contributes to about 32% of its earnings. Its core remains in Canada, which contributes 60% of its bottom line.

The bank offers personal and commercial banking services in Canada and the U.S. It also has Wealth Management and Capital Markets segments.

Bank of Montreal is one of the Big Five Canadian banks. Last year, it reported record total revenue of more than \$25 billion and adjusted net income of over \$6 billion. Its adjusted earnings per share rose by 5% in fiscal 2019.

In fiscal Q1 2020, BMO's Canadian, Wealth Management, and Capital Markets businesses, respectively, did well with adjusted net income growth of 8% to \$700 million, 38% to \$362 million, and 21% to \$300 million against fiscal Q1 2019.

BMO's dividend

BMO stock has a strong dividend track record. The bank has not cut its dividend since 2002. In fact, it

was able to maintain or increase its dividend per share during and after the turmoil of the last financial crisis about 11 years ago.

The stock is more likely to increase its dividend over time. Its trailing 12-month dividend per share is 6.6% higher than it was a year ago. Its annualized payout of \$4.24 per share results in a payout ratio of about 44% this year.

So, even if economic growth is expected to slow in the near term, the stock can still maintain, if not increase, its dividend.

Investor takeaway

Bank of Montreal is [a perfect TFSA stock](#) because of its high-quality shares. In the last decade, if not longer, it had returns on equity of more than 12% every year.

By buying BMO stock today, investors can generate returns of about 13% per year in the long run. The returns will come from a high initial yield of 5%, valuation expansion, and stable growth.

Here are more [great dividend stocks](#) for your TFSA.

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1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

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