Millennials: You Can Build a Fountain of Lifetime Wealth Starting With Just $6,000!

Description

Are you a millennial just getting started with investing?

If so, you’ve come into the game at the right time.

Right now, stocks are trading at some of their lowest prices in years. Historically, down markets like the one we’re in now have been the best times to buy stocks. You’re coming of age in one of the steepest ones in recent memory. While stocks have risen considerably in the past three weeks, they’re still cheap compared to earlier this year. If the economy recovers from its current headwinds, stocks will rise dramatically.

In this article, I’ll explore how you can capitalize on the bargain prices now available, starting with as little as $6,000.

Invest in a Tax-Free Savings Account (TFSA)

TFSAs are special accounts that let you buy and sell stock without paying taxes. When you hold stock in a TFSA, you pay no taxes on capital gains or on dividends. You don’t pay taxes on withdrawals, either. That’s one advantage that RRSPs don’t have.

So, by investing in a TFSA, you increase the amount of your return you can actually keep. This means that you can build the foundation for lifetime wealth with a relatively small sum invested up front.

How TFSA investing can build the foundation for lifetime wealth

If you turn 18 this year, you can invest $6,000 in a TFSA. If you're older, you may be able to invest up to $69,500. Your exact contribution limit depends on when you become eligible to open one: you start accumulating TFSA contribution room when you're old enough to have one. It doesn't depend on whether you actually *have* a TFSA yet or not.

For simplicity's sake, let's assume that you're 18 years old today and can contribute $6,000 to a TFSA this year.

On the surface, that may not look like a lot of money to invest. But remember: the TFSA lets you skip capital gains and dividend taxes. So, your after-tax returns will be higher than they'd be in any other account.

That can really make a difference if you're holding a high-growth stock like **Shopify** (TSX:SHOP)(NYSE:SHOP).

Shopify is a fast-growing e-commerce stock that has risen dramatically since its 2015 IPO. Rising over 1,000% in five years, it could have turned $6,000 into well over $60,000. In a normal account, that kind of return would generate a large capital gains tax. In a TFSA, you would pay no tax on it whatsoever.

This is particularly important if you're holding high-growth stocks like SHOP. When you have a stock that rises 1,000% in value over a short period of time, the capital gains taxes can really start to add up. To return to our example, if you grew $6,000 to $60,000 with SHOP and sold it all, you'd have a $54,000 gain, of which $27,000 would be taxable. If your marginal tax rate was 50%, you'd pay a $13,500 tax on those shares!

The above illustrates the tax-saving power of the TFSA. By sparing you capital gains taxes, they can ramp up your savings extremely quickly. That's true no matter what you hold, but the savings power is most formidable when you hold "10-bagger" stocks like SHOP.

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