Young Investors: How to Turn a $6,000 TFSA Investment Into $42,000

### Description

Young investors want to know which top dividend stocks might be the best picks to start a Tax-Free Savings Account (TFSA) retirement portfolio today.



## TFSA investing

The TFSA contribution limit increased by $6,000 in 2020. Investors now have as much as $69,500 in TFSA contribution room. This is large enough to build a decent portfolio of top stocks that could generate substantial returns over the next two or three decades.

Millennials in particular might find the TFSA a better investment vehicle compared to the RRSP. And people in their late 20s and 30s will see earnings increase as their careers progress. Saving RRSP contribution space for later year makes sense, as the contributions can be used to reduce taxable income that might be at a higher marginal tax rate.

In addition, the TFSA provides more flexibility. Ideally, retirement investments are left to grow for decades. However, moments arrive in life when we might need to tap the funds for an emergency. TFSA withdrawals can be made at any time without a tax penalty. RRSP withdrawals are subject to withholding taxes.

## Best stocks to buy

A popular strategy involves buying top-quality dividend stocks and using the distributions to acquire additional shares. Companies with strong track records of dividend growth deserve to be on your radar. In the current environment, it also makes sense to search for business that provide essential services.

Let’s take a look at one top Canadian dividend stock that appears oversold today and has delivered strong returns for long-term investors.

## Bank of Nova Scotia

**Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) trades near $53.50 at the time of writing and provides a 6.75% dividend yield. The stock traded above $74 in February, so there is decent upside potential on an economic recovery.

The company made big bets in recent years on the Pacific Alliance countries that include Mexico, Peru, Chile, and Colombia. The combined market is home to more than 225 million people. Banking penetration remains below 50% and Bank of Nova Scotia sees strong potential for growth as the middle class expands.

## Risks

The pandemic will put pressure on these economies due to heavy reliance on strong commodity markets. Oil and copper prices, for example, are under pressure amid the current global economic downturn.

Bank of Nova Scotia gets about 30% of adjusted net income from the international operations, so investors should expect rough results in the next two or three quarters.



At home, people are having trouble paying their loans. The Canadian government is putting aid measures in place to keep businesses alive and help unemployed Canadians pay their bills during the lockdowns.

In addition, Canada is buying up to $150 billion in mortgages from the Canadian banks to provide liquidity for ongoing lending. A prolonged shutdown or a second wave of the outbreak would be negative for the Canadian banks.

## Opportunity

As long as the economy starts to open up again in the back half of 2020, Bank of Nova Scotia should see a strong rebound in 2021. The current share price reflects the anticipated damage over the next few months.

Long-term investors have done well with the stock. A $6,000 investment in Bank of Nova Scotia 20 years ago would be worth about $42,000 today with the dividends reinvested — even after accounting for the crash in the past eight weeks.

## The bottom line

The International Monetary Fund predicts a strong global recovery in 2021 once the pandemic runs its course.

Buying top stocks during a correction takes courage, and more volatility should be expected. However, history suggests the long-term rewards should outweigh the near-term risk.

**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**TICKERS GLOBAL**

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

**PARTNER-FEEDS**

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA



**Category**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**Date**
2025/07/29
**Date Created**
2020/04/22
**Author**
aswalker