TFSA Investors: How to Turn $69,500 Into $2 Million (or More!)

Description

If you’ve been thinking about investing in your Tax-Free Savings Account (TFSA) for a while now, today might be the perfect opportunity to get started.

Studies have shown investors who simply invest whenever they have the cash end up better than folks who intentionally wait for stock market declines. But I also don’t want to discount what’s happening today. It’s a fantastic opportunity to load up on great companies that were significantly more expensive just a few months ago.

Yes, COVID-19 has changed the world. But if you’re a long-term bull on humanity — as I am — then you can confidently say we’ll find a way to conquer this virus and everything will go back to normal. A new era of prosperity will emerge, bringing higher stock prices with it.

Is that something you and your TFSA want to miss out on?

Let’s take a closer look at how just one investment in your TFSA made today could easily lead to a substantial nest egg. We’re talking $2 million — or more!

Amassing a huge TFSA

Let’s assume you’re 30 years old today, which means you’d be allowed to put away the maximum allowable TFSA contribution of $69,500. Let’s say you don’t add another nickel into the account for as long as you live, simply reinvesting any potential gains back. How much will you end up with by the time you hit age 65?

It all depends on your rate of return, of course. A mediocre 6% return will result in a TFSA nest egg worth just over $534,000. An 8% return will grow the account to a little over $1 million.

A 10% annual return will result in a TFSA worth a hair over $1.9 million. An 11% annual return is exactly what we're looking for; it will turn a $69,500 initial investment into something worth $2.68 million in just 35 years.

It won't be easy to get those kinds of returns, of course. Over the long-term, the total return of major stock market indexes is closer to the 8-9% range. While that's not bad, it won't be enough to get us above a $2 million TFSA without additional saving.

One way investors can sort for stocks that offer an 11%+ annual long-term return potential is to look at stocks that have already accomplished this over the years. Let's take a closer look at one such company, which is particularly beaten up right now.

Canada's fast food king

A&W Revenue Royalties Income Fund (TSX:AW.UN) owns the intellectual property of Canada's second-largest burger chain, a brand that has quietly expanded to nearly 1,000 locations from coast-to-coast. A&W has succeeded by focusing on delicious food made with quality ingredients, terrific promotions, and a high-quality restaurant experience.

Naturally, COVID-19 has thrown this company for a loop. Shares were as high as $44 each before the crisis. These days, the stock trades at just over $26. However, there are signs the company is beginning to emerge from these dark times.

Restaurants are being allowed to reopen. And many locations are reporting brisk drive-thru sales. It's likely the dividend — which was temporarily suspended — will be reinstated soon.

A&W has also delivered terrific long-term returns. Even after this recent decline, A&W shares have posted an 11.8% annual return since 2005, assuming dividends were reinvested. That's enough to turn a $10,000 initial investment into something worth $52,456.

The bottom line

It won't be easy to grow your TFSA into something worth $2 million or more. But it is entirely possible if you put cash away while you're young, invest in excellent stocks like A&W, and continue to be patient. Adding money to your TFSA will sure help too.

Eventually, all the sacrifice will be worth it. There's no better feeling than financial independence.

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