

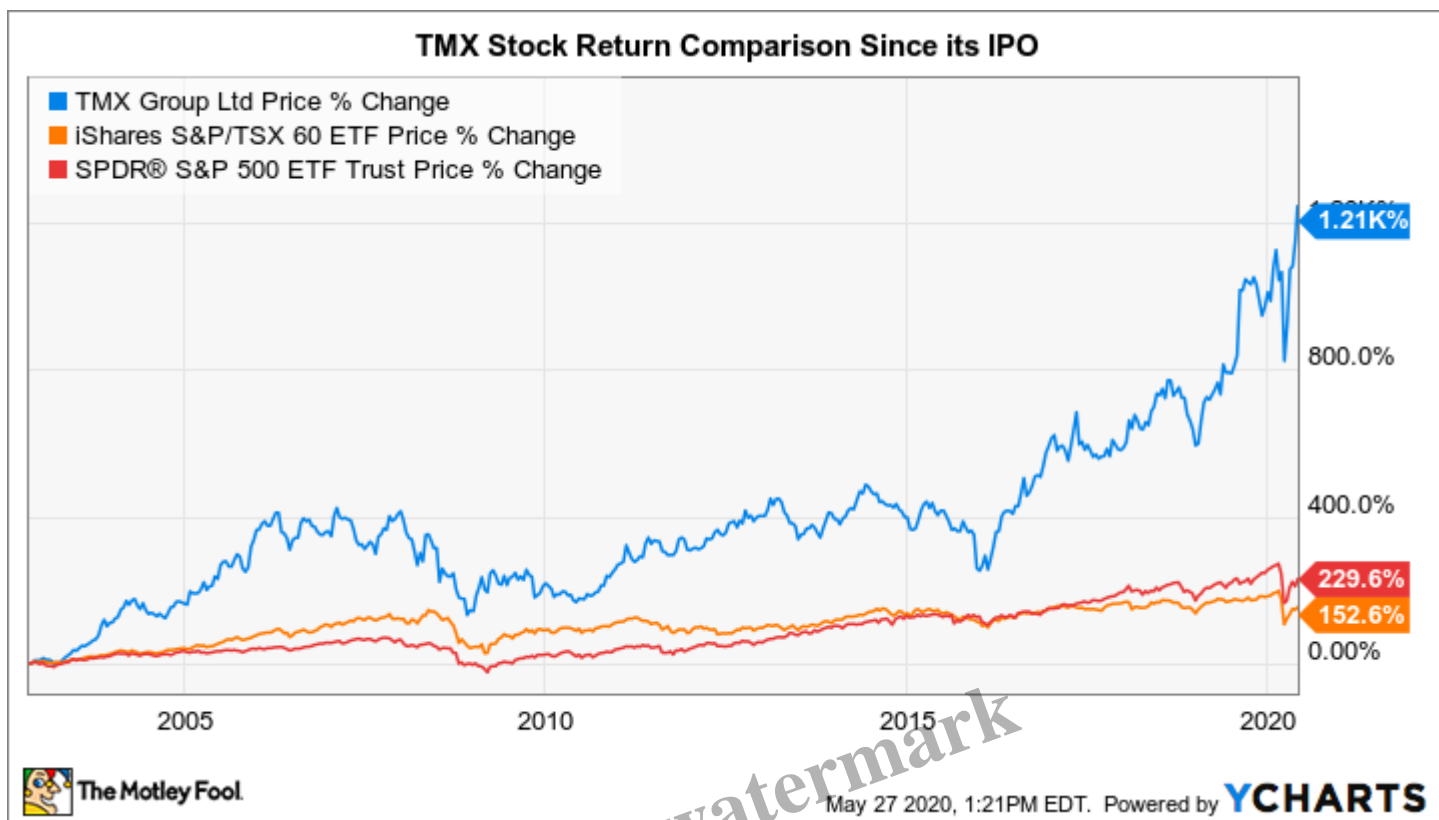


TFSA Investors: Turn \$69,500 Into \$1,000,000 and Pay Zero Taxes to the CRA

Description

We know that the Tax-Free Savings Account (TFSA) is one of the most flexible investment options for Canadians. While TFSA contributions are not tax deductible, any withdrawal in the form of capital gains or dividends is tax-free. The TFSA contribution limit for 2020 stands at \$6,000. Comparatively, the total TFSA limit for Canadians is \$69,500.

As withdrawals are tax-free, you need to allocate your TFSA capital to top-quality stocks that have the potential to increase wealth multi-fold. At a time when equity markets are volatile, investing in recession-proof stocks is a safe bet.



X data by YCharts.

Consider this exchange operator for your TFSA

The **TMX Group** ([TSX:X](#)) is a stock exchange operator. The stock has generated massive wealth for investors since it went public. As we can see in the above chart, TMX shares have easily outperformed broader markets for close to two decades.

An investment of \$69,500 in TMX Group back in 2002 would have returned close to \$850,000 today. In case you account for dividend payments this figure is well over a million dollars.

TMX Group is a natural monopoly, [as it operates](#) exchanges, markets, and clearing houses in Canada and other markets. Its business model is lean and not capital intensive. Further, since the turn of this millennium, there has been an accelerated development of global financial markets. This trend is expected to continue making TMX Group one of the best bets for long-term TFSA investors.

In the [most recent quarter](#), TMX Group reported sales of \$220.3 million, up 12% from \$197.5 million in the prior-year period. Adjusted earnings per share rose 18% to \$1.53, indicating strong operating leverage metrics. Operating cash flow was up by a healthy 50% at \$79 million.

TMX benefited from market volatility. It experienced a surge in trading activity, as investors reacted to the impact of the dreaded coronavirus. Higher volumes in derivatives and equity trading contributed to revenue growth in Q1. This was offset by a decline in capital formation revenue, as capital-raising conditions are not ideal in a bear market.

Company CEO John McKenzie stated, "TMX achieved strong earnings growth in the first quarter of 2020 compared to the first three months of 2019, reflecting high volatility and a surge in activity as markets reacted to the COVID-19 pandemic."

Valuation, growth, and dividends

Analysts expect TMX Group to increase sales by 7% in 2020, and this estimate stands at 4.2% in 2021. It has a market cap of \$7.5 billion indicating a forward price-to-earnings multiple of 8.6. The stock is trading at a forward price-to-earnings multiple of 22.5, which is reasonable considering expected earnings growth of 9% in the next five years.

Its dividend yield of 2% might not be too attractive for income investors. However, TMX Group has increased quarterly dividends from \$0.15 per share in 2003 to \$0.66 in 2020. With 56 million shares outstanding, TMX will spend approximately \$37 million on quarterly dividend payouts. A payout ratio of less than 50% indicates dividends remain safe, and investors can look forward to increases in upcoming quarters as well.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:X (TMX Group)

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