Turn Your $6,000 TFSA Contribution Into $15,000 in 10 Years

Description

Every time I hear about someone using their Tax-Free Savings Account (TFSA) as a mere place for cash to collect dust, I cringe at the potential gains that stand to be surrendered over the long term. With interest rates as low as they are, taking a raincheck on investing in the stock market comes with high opportunity costs.

Although bonds, cash, and cash equivalents are technically “risk-free” (or free from downside risk), they’re not free from upside risk. If you’re a young TFSA user, I’d argue that the risk of missing out on long-term upside with cash is far greater than the downside risks of investing in “risky” assets like stocks, REITs, and other higher-return securities.

If you’ve already contributed $6,000 to your TFSA this year but have found yourself stuck on the sidelines because of the ridiculous amounts of volatility in the market amid the coronavirus crisis, you’re not alone. Volatility is scary, especially for many beginner investors. But by sticking on the sidelines, you’re not doing your future self any favours, as you settle for abysmal interest rates that are likely to be outpaced by the rate of inflation.

Good TFSA investors invest in spite of volatility

You need your wealth to actually grow if you want to reach a comfortable retirement down the road. So, if you’re ready to invest your $6,000 TFSA contribution rather than waiting for the perfect time to jump in (it’ll probably never happen), consider dipping a toe into some of the lower-beta securities on the TSX Index that will allow you to better weather volatility as it comes while allowing you to grow your wealth at an above-average rate over time.

To grow your $6,000 TFSA contribution to $15,000, you don’t need to speculate on high-beta stocks or those roller-coaster-ride spec bets that’ll leave you sick to your stomach. All you need is the discipline to hang onto a name you believe in, regardless of what’s going on with the broader stock markets.

As we witnessed during the coronavirus crash, acting on raw emotion after a steep decline in the broader markets can be detrimental to your wealth. So, only invest if you’re going to stay the course given the possibility that Mr. Market could pull the rug from underneath investors again.

If you want to build your wealth, you'll need to take some risks, but you don't need to risk your shirt!

One low-beta stock that's a compelling bargain today is **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN). This diversified renewable energy play can help you turn your $6,000 TFSA contribution into $15,000 or more in a decade. The stock sports a 0.32 beta, meaning shares are more likely to zig when the markets zag.

The company owns some rock-solid water utility assets in addition to a portfolio of compelling renewable assets and a growth pipeline that could fuel low-risk cash flow generation for years to come. The stock sports a safe 4.9% dividend yield that's well covered by operating cash flows.

Although the coronavirus has delayed Algonquin's 2020 capex plans, the company looks to be in a spot to remain resilient amid this pandemic. The company has secured $1.6 billion in incremental available liquidity and is slated to continue on with its medium-term growth projects.

Foolish takeaway for TFSA investors

Given the predictable growth you're getting from Algonquin, the stock deserves to trade at a premium in the face of a recession. With shares trading in line with that of its historical averages, I'd encourage "risk-off" TFSA investors to get into AQN stock today, as it's capable of growing one's wealth at an above-average rate over time.

CATEGORY

1. Coronavirus
2. Dividend Stocks
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1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)

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