Millennials: How to Turn a $10,000 TFSA Into $372,000 by 2030

Description

There is a lot of uncertainty surrounding equity markets, as the COVID-19 pandemic continues to take a toll on global economies. While the V-shaped recovery has surprised investors and analysts, several experts believe a market crash in on the cards.

If markets plummet again, that will provide investors an opportunity to buy quality stocks at beaten-down valuations. This can help increase wealth multi-fold and accelerate retirement plans for investors.

While the COVID-19 pandemic has hurt multiple sectors, including airlines, retail, energy, banking, and REITs, the technology sector is largely immune to the dreaded virus. The S&P 500 ETF has returned 1.5% year to date, and the **iShares S&P/TSX 60 ETF** has returned -4.1% in 2020. However, the tech-heavy **NASDAQ** has gained an impressive 22.6% since the start of the year.

Canadian tech stocks such as **Constellation Software** (TSX:CSU) have also crushed market returns this year. Constellation Software stock is up 26% in 2020 and has been one of the top stocks to own since it went public back in 2006.

You need to take advantage of investing in a Tax-Free Savings Account, (TFSA) where withdrawals are exempt from Canada Revenue Agency taxes. The TFSA is a popular account among Canadians and is ideal to allocate growth stocks such as CSU.

The maximum cumulative contribution room for a TFSA stands at $69,500, and you can allocate a part of this to invest in quality tech companies.

What makes CSU stock a perfect TFSA investment?

Constellation Software acquires, manages, and builds vertical market software businesses. These businesses provide mission-critical software solutions that address specific customer needs. It focuses on acquiring profitable businesses with growth potential, which helped CSU generate significant cash flows and revenue growth in the last decade.

Constellation Software revenue consists of software licence fees, maintenance and recurring fees, professional service fees, as well as hardware sales. It generates a significant portion of cash flows due to a subscription-based business model where software products are licensed under multi-year or perpetual agreements.

CSU also generates maintenance and recurring sales from customer support fees derived from software as a service, subscriptions, hosted products, and transaction-related sales.

In the first quarter of 2020, CSU sales were up a healthy 16% year over year at $953 million. Its operating margin stood at 12% with an operating cash flow of $361 million, up 27%. CSU's free cash flow also rose 24% to $311 million.

What's next for CSU shareholders?

CSU continues to grow via acquisitions and is forecast to grow sales by 14% to $3.98 billion in 2020 and 17.8% to $4.7 billion in 2021. With a market cap of $33.6 billion, CSU stock is valued at 8.4 times forward sales. It's trading at a forward price-to-earnings multiple of 37, which might seem expensive, but growth stocks tend to trade at a premium.

If you'd invested $10,000 in CSU stock 10 years back, you would have gotten a return close to $372,000 today. While there is no guarantee that the stock will deliver the same performance in the upcoming decade, it remains a top tech stock given high customer retention and the focus on acquisitions.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

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araghunath