TFSA Investors: Turn a $6,000 Contribution Into a Million-Dollar Portfolio

Description

Canadian stocks at large fell 35% in mid-March and recovered almost entirely in the subsequent rally. Don't feel bad if you didn't act during the recent crash. Speculation is not an easy game. Long-term, disciplined investing is way superior in many aspects.

A TFSA for a decent retirement portfolio

Canadians have one of the best instruments in the form of Tax-Free Savings Account (TFSA) to carry out this strategy. Consistent investment in high-quality names using TFSA will create a robust reserve over a longer period. Capital gains and dividend income generated within the TFSA will be tax-free and will significantly contribute to the portfolio's total returns.

For example, if one invests $6,000 every year in a TSX stock that grows 20% annually for the next 20 years, they will generate a reserve of $1.1 million. As investors increase the investment amount to use the full TFSA contribution room every year, it will further increase the reserve.

Interestingly, if you have never invested in a TFSA, then you can contribute $69,500 this year. Using this figure for the earlier equation will create a reserve of approximately $3.8 million in the same period.

Investors should note that the longer investment period is more important than the initial investment. It allows compounding to do the job and grow your money.

Top TSX growth stocks

There are many companies in Canada that have shown stellar growth consistently. High-growth TSX stock **Shopify** (TSX:SHOP)(NYSE:SHOP) has grown by 104% in the last five years compounded annually. Air cargo operator **Cargojet** (TSX:CJT) has grown by 45% compounded annually in the last decade.

It would be imprudent to demand the same growth from them in the future. But they still have superior prospects and will likely continue to create wealth for their shareholders.

E-commerce growth has notably fueled these stocks in the last few years. Notably, changing consumer behaviour, especially after the pandemic, will likely underpin their growth in the foreseeable future.

Air cargo leader Cargojet stock has soared more than 85% so far in 2020. Despite the valuation concerns, Cargojet could continue to shine in the short to medium term.

Shopify's attractive business model, backed by the cutting-edge technology, drove it in all these years. Its second-quarter earnings, which were released late last month, strengthen the growth story further.

Investors should note that with growth stocks like Shopify and Cargojet, it could take much less time to create a solid retirement fund than with defensive stocks. This is where taking a high risk can pay off.

Top tech stock **Constellation Software** (TSX:CSU) has also displayed an above-average growth in the last several years. In the last decade, it has grown 46% compounded annually, notably beating peers. Constellation acquires smaller software companies that have a leadership position in niche markets.

The $33 billion company has completed more than 260 acquisitions since its inception in 1995. Unmatchable software portfolio and fitting acquisitions are some of the competitive advantages of the company. Technology companies generally have healthy profit margins and thus are more rewarding for shareholders.

Bottom line

A person with a couple of decades to retirement will generally be able to tolerate higher risks. Thus, they can have a higher portion allotted to these high-growth stocks and less towards defensive stocks. Consistent investment in some of the top-performing names will generate a huge retirement reserve over the long term.

CATEGORY

1. Investing
2. Stocks for Beginners
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TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:CJT (Cargojet Inc.)
3. TSX:CSU (Constellation Software Inc.)
4. TSX:SHOP (Shopify Inc.)

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