TFSA Investors: Retire Rich by Investing Only $500 a Month!

Description

The Tax-Free Savings Account (TFSA) is the government's gift to Canadians who can invest in TFSAs for tax-free returns. Yes, Canadians should treat it as an *investment* account instead of a savings account.

Strategically investing only $500 a month (or $6,000 a year) in wonderful businesses via stock investing in your TFSA can allow you to retire rich!

The TFSA limit is growing

This year, the TFSA limit is $6,000. The yearly TFSA limit is indexed to inflation and rounded to the nearest $500. Based on the Bank of Canada's long-term inflation target of 2%, the TFSA limit will increase to $6,500 in 2022 and increase to $7,000 in 2025.

Investors should get into the habit of investing the full contribution amount each year to maximize their TFSA returns. I find that saving and investing periodically is simply easier than contributing a big lump sum. But do whatever works for you.

Retire rich by investing $500 a month in your TFSA

If you've already started investing in your TFSA, that's great. However, we're going to be super conservative here and assume you're just starting out with a $0 TFSA.

We also need to put in some reasonable parameters. Let's say that the $500-per-month contribution is compounded annually with a portfolio yield of 5% and growing at 10% a year. You'd arrive at a portfolio value of $337,650 and would collect $16,882 of dividend income in year 19.

By now, you might be thinking that I tricked you, as $337,650 is not enough to retire on comfortably. Please, stick with me here. The above scenario will be markedly improved if you reinvested all the dividends.

You see, over that 19 years, you would have received cumulative dividend income of $123,007. Many beginner investors would laugh at the measly $330 of dividend income ($27.50 a month) in the first year and might even spend it.

Keep in mind that the compounding effect becomes stronger the longer you stay invested. The portfolio value difference between reinvesting dividends and not would be $10,285 by year five and $78,561 by year 10!

It follows that reinvesting all the dividends received over the 19 years would boost your portfolio value astoundingly to $1,184,461. On a 5% yield, you'd be getting annual income of $59,223 in year 19!

Some folks will continue to draw from their TFSA accounts if they've made that first withdrawal. Again, it's about getting into the habit of reinvesting dividends.

Getting a 5% dividend yield today

There are more than several blue-chip dividend stocks that pay yields of at least 5%. Here's to name a few that are also attractively priced today.

Brookfield Property Partners, **Enbridge**, and **Bank of Nova Scotia** yield 9.6%, 8.1%, and 6.3%, respectively.

The Foolish takeaway

Slow and steady wins the race. You don't necessarily need to go out on a limb and take on excessive risk to aim for high returns of, say, 20% per year, but you could do so with a portion of your portfolio.

As the above numbers show, you can achieve a +$1,000,000 stock portfolio by just investing $500 a month. That said, it's just one scenario. In reality, you won't see your portfolio growing 10% every year. Your portfolio yield also won't stick to 5%.

Moreover, imagine changing the scenario's parameters a little, such as doubling your savings amount to $1,000 a month. You'd arrive at a portfolio value of $2,368,922 assuming the other parameters are the same. And of course, if there were no taxes.

Based on the current TFSA limit, however, you'll need to invest the excess amount in other accounts. If you invest in a non-registered account, you'll be paying some taxes on the dividends that'll dampen the growth of your portfolio. Thankfully, eligible Canadian dividends are favourably taxed in non-registered accounts.

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kayng