



## Do You Have \$7,500 to Put in Your TFSA? Here's How it Can Become \$170,000

### Description

Canadian investors are using the TFSA to build stock portfolios for retirement.

### TFSA investing 101

The government created the TFSA in 2009 to give Canadians an extra tool to save money. People now use the TFSA to achieve a number of financial goals, including retirement planning.

Saving for the golden years is done in a number of ways. The RRSP is still a great choice, especially when people are in the high-income years of their careers. RRSP contributions reduce taxable income, so it makes sense to use the room when it maximizes the tax savings. Ideally, we remove RRSP money when we are in a lower marginal tax bracket than when we made the contribution.

The TFSA is another option. Cumulative TFSA space is now as high as \$69,500 per person, so there is ample room to create a solid portfolio. The CRA [increases](#) the contribution amount each year. Money held inside the TFSA can grow tax-free. That's the same as the RRSP. However, the profits generated in the TFSA are not taxed when you decide to take out the money. That's not the case with RRSP funds.

The ideal situation is to max out both your RRSP and TFSA limits each year. If this isn't possible, the decision of where to put savings depends on earnings and a person's investing strategy.

Younger investors might decide to use the TFSA first and save RRSP room for later. The TFSA provides more flexibility as well, so you can access the full value of the TFSA in the event the money is needed for an emergency.

Retirees use the TFSA to generate income that won't trigger the [OAS clawback](#).

### Top stocks to buy in a TFSA

The market pullback in 2020 gives new investors a chance to buy some top-quality [dividend stocks](#) at discounted prices. The best stocks to own normally have long track records of providing dividend growth supported by rising earnings. The companies are often industry leaders and provide essential services or products.

Let's take a look at two stocks that might be interesting TFSA picks today.

## TD Bank

**Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is Canada's second-largest bank by market capitalization. The company is best known for its retail banking strength in Canada, but TD actually operates more branches in the United States.

The pandemic is putting pressure on the banks, as unemployment remains high and businesses struggle to navigate restrictions. The coming months will be challenging, but TD remains very profitable and has the capital to ride out the downturn. Investors who buy the stock during a correction typically see strong long-term returns on the investment.

In fact, a \$7,500 investment in TD just 25 years ago would be worth \$165,000 today with the dividends reinvested.

## CN

**Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) is a leading player in the North American rail industry. CN is the only rail operator with tracks that connect ports on three coasts. The business serves an important role in the efficient operations of the U.S. and Canadian economies.

CN generates strong profits and free cash flow. The dividend growth over the past two decades is one of the best in the TSX Index. CN's diversified business units help provide revenue stability. When one segment has a rough quarter the others often make up the difference.

A \$7,500 investment in CN only 20 years ago would be worth \$170,000 today with the dividends reinvested.

## The bottom line on TFSA investing

It takes patience and discipline, but investors looking to build a TFSA retirement fund can harness the power of compounding to turn a modest initial investment into a substantial cash pile for the future.

### CATEGORY

1. Dividend Stocks
2. Investing

### POST TAG

1. Editor's Choice

## **TICKERS GLOBAL**

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:TD (The Toronto-Dominion Bank)

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## **Date**

2025/07/28

## **Date Created**

2020/11/06

## **Author**

aswalker

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