Retire Early: How to Turn a $10,000 TFSA Into $195,000

Description

Canadian savers are using the TFSA to build significant retirement funds.

TFSA investing

Investors have as much as $69,500 in TFSA contribution space right now. We expect the increase to be $6,000 in 2021. The government determines jumps in the size of the TFSA contribution limit based on inflation, rounded to $500. Investors make TFSA contributions with after-tax income, but the profits generated inside the TFSA are tax-free.

This is important for two reasons.

First, investors use the full value of interest, dividends, or capital gains to growth the fund. A popular strategy involves using dividends to automatically acquire new stock through a company's dividend-reinvestment plan (DRIP). This starts a compounding process that can turn relatively small initial investments into large savings over time.

The second advantage of the TFSA is also connected to its tax-free status. Fund removed from the TFSA remain beyond the reach of the CRA. In retirement, pensioners use TFSA money to boost income without getting put into a higher tax bracket. TFSA income also avoids triggering a CRA clawback on OAS payments.

Best stocks to own in a TFSA

Industry leaders that provide essential services stand out as top buy-and-hold picks. In addition, companies should demonstrate rising income supported by steady revenue growth. These stocks normally pay reliable dividends.

Let's take a look at one top Canadian dividend stock that appears cheap right now and deserves to be on your TFSA radar.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is number three on the list of Canada's largest banks. The stock currently trades at a lower multiple than its peers, giving investors a chance to buy Bank of Nova Scotia at a discount. In fact, the stock looks quite oversold.

The pandemic poses ongoing risks for the Canadian banks. Defaults on loans could increase when government aid programs end and deferred payments for mortgages expire. Bank of Nova Scotia's international business is the reason for the low multiple. The bank built large operations in Mexico, Peru, Chile, and Colombia in recent years, and the pandemic hit Latin America hard.

Beyond the near-term uncertainties, Bank of Nova Scotia looks attractive. The bank remains very profitable, supported by the wealth management, capital markets, and Canadian banking operations.

Bank of Nova Scotia survived every major crisis in the past century and is positioned well to ride out the current turbulence.

Latin America will bounce back after the pandemic, and the long-term growth outlook for the four Pacific Alliance countries should be positive. In the meantime, investors pick up a 6.4% dividend yield and get a shot at decent upside. Bank of Nova Scotia trades near $56 today. The stock started 2020 at $76 per share.

Buying pullbacks typically pays off. A $10,000 investment in Bank of Nova Scotia 25 years ago would be worth $195,000 today with the dividends reinvested.

The bottom line

Bank of Nova Scotia deserves to be on your TFSA radar, but it isn't the only attractive stock today. The **TSX Index** is home to several top dividend stocks that have delivered similar or better returns.

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