



How to Turn a \$69,500 TFSA Into \$695,000!

Description

In 2020, \$69,500 is the maximum amount of money you can contribute to a Tax-Free Savings Account (TFSA). That's the accumulated contribution room from all the years since the TFSA was created in 2009.

On the surface, \$69,500 doesn't look like a whole lot of money. The average Canadian house price is about \$580,000; \$69,500 barely covers a 10% down payment on that. But looks can be deceiving. With diligent contribution and smart investing, you can potentially grow a \$69,500 TFSA to \$695,000 or more. In this article I'll be exploring a three step process that could take you there.

Step 1: Get your savings established

The first step to investing in a TFSA is getting your savings in the account in the first place. If you were at least 18 in 2009 and have never contributed, you can [put \\$69,500 in the account this year](#). If you exceed your contribution limit, you'll have to pay a penalty on it, so be careful.

If you don't have \$69,500 to invest right now, you can gradually add it over a period of years. By the way, if you do this, you'll have a higher contribution limit in the future, since new TFSA room is added every year.

Step 2: Pick the right investments

Once you've got your TFSA money ready to invest, you need to pick your investments. You'll never turn \$69,500 into \$695,000 with savings account interest, so this step is crucial.

There are basically two ways to invest in a TFSA: the safe and slow method and the quick and risky method.

The safe and slow method is where you hold dividend stocks like **Fortis Inc** ([TSX:FTS](#))([NYSE:FTS](#)) for a long time. Fortis pays about a [3.7% dividend yield](#) at today's prices. That's a pretty dependable

source of return right there. Add 6.29% in capital gains every year and you've got a 10% annual return.

At a 10% rate of return, it takes about 24 years and four months to get turn \$69,500 into \$695,000; 10% compounded over 24.3 years gets you to 1,000%. That's the cumulative return needed to get \$69,500 to \$695,000. As you can see, this return is possible even with a defensive stock like Fortis.

The quick and risky method is where you hold growth stocks like **Shopify** and hope to beat the market. Shopify has returned about 109% per year since it went public. At that rate of return, it would take only three and a half years to turn \$69,500 into \$695,000. While that might seem exciting, remember that this method is a lot riskier and could see you lose your shirt.

Step 3: Re-invest periodically

Above, I showed you the math on turning a \$69,500 TFSA into \$695,000. As you saw, even with defensive stocks, it could work given a long enough time frame.

But ultimately, you shouldn't rely on just your \$69,500 to get you to your savings goal. Instead, you should re-invest the extra contribution room you get every year, giving you an extra edge that can make a massive difference over the decades. The best investors don't just invest one lump sum and wait, they build up their positions over time. By doing so, you can massively increase your ending amount.

Each year, the TFSA gets between \$5,000 and \$10,000 in new contribution room. Even if we stay on the lower end of that range for the next decade, that's \$50,000 you could potentially invest. If you make those contributions diligently and invest wisely, there's no telling how far your money could go.

CATEGORY

1. Dividend Stocks
2. Investing
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2. NYSE:SHOP (Shopify Inc.)
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