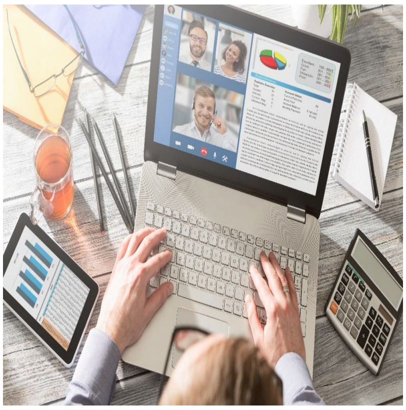

TFSA Investors: How to Build a $100,000 Portfolio in 10 Years

Description

Deciding on which type of bank account that's suitable for your objectives is only half the battle. The other half, also the more important half, is deciding what you will own inside of that account.

Canadians have all sorts of options of what to own in their Tax-Free Savings Accounts (TFSAs), which can include cash, bonds, or mutual funds, to name a few examples. For investors with a longer time horizon and a higher risk tolerance, investing in exchange-traded funds (ETFs) or individual stocks could deliver growth that could dramatically outpace the growth that you'd earn from bonds or mutual funds. That potential growth is offset by potential losses and higher levels of volatility, though.

Potential losses and higher volatility aside, Canadians have the option of buying all types of ETFs to match their investing style. ETFs can be an excellent choice for any type of investor as you can purchase funds that invest in entire stock markets.

Finding the right ETF for your TFSA

Since its inception at the end of 2012, the **Vanguard S&P 500 Index ETF** has driven total growth of more than 225% to shareholders. Since the beginning of 2013, that's led to an average annual growth rate of an impressive 16%.

The index owns the 500 largest public companies in the U.S. The beauty of the index is that if it's the only fund you own in your TFSA, it will take you little to no time to manage your portfolio. All you'll need to do is continue to buy funds on a regular basis and let compound interest do its magic.

Owning shares of Vanguard S&P 500 Index ETF won't require you to spend any time managing your portfolio, but that does come at a very small cost. The management expense ratio is 0.09%. While that 0.09% can add up over time through compounded interest, it's far lower than what you'll find on many mutual funds, which are commonly 1% and higher.

How to grow your TFSA from $0 to $100,000

Now that you've narrowed down the fund you'd like to own, all that remains is sticking to a schedule of buying shares. To make your life easier and less stressful, set a specific date so you buy shares every month, two months, six months, or whatever works for you. Just make sure you're making a purchase at least once a year.

Vanguard S&P 500 Index ETF has driven an average annual growth rate of 16% since 2013. Repeating that over the next eight years might be a lot to ask, but it is definitely not impossible. So for the sake of this example, we will compound the interest annually at a growth rate of 16%.

The TFSA contribution limit since its introduction in 2009 has averaged about $5,500, so for this example, let's assume we have $5,000 to invest on an annual basis.

If you purchased $5,000 worth of stock of **Vanguard S&P 500 Index** ETF every year since 2013, you'd be sitting on a portfolio worth just over $100,000 today, assuming an annual growth rate of 16%. Of that $100,000, only $40,000 came from actual contributions. The remaining $60,000 came from the compounded interest.

If you have a longer time horizon, then you can really see how powerful compound interest can be. If you were to invest $5,000 per year in the same ETF in your TFSA, but this time for 20 years, your portfolio would now be worth an incredible $575,000.

CATEGORY

1. Investing

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1. ETF
2. exchange traded funds
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5. S&P 500 ETF
6. vanguard ETF
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1. TSX:VFV (Vanguard S&P 500 Index ETF)

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