



## 2021 TFSA Contribution Limit: Turn \$6000 Into \$60,000!

### Description

Recently, the 2021 Tax-Free Savings Account (TFSA) contribution limit was announced. As expected, it was \$6,000. That means that next year you'll get an extra \$6,000 worth of account space to hold investments in tax-free. While \$6,000 might not look like a lot of money at first, looks can be deceiving. If you consider its potential to grow, \$6,000 is a lot.

With that in mind, here are two methods with which you can turn a \$6,000 TFSA contribution into \$60,000.

### Slow and steady

The slow and steady method is where you buy [defensive stocks](#) and hold on for the long term.

What you want to do here is buy "modest growth" stocks like **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), and hold on a long time. The goal is to earn a modest annual total return of about 10%, but hold long enough for that to turn into 1,000%. At a 10% annualized rate, that takes about 24 years. For most people, that's a little less than the span of a career (30-35 years).

With TD, if everything goes right, 10% annualized could be quite do-able. TD yields 4.5% at today's prices, so you only need 5.5% in annual capital gains to get to a 10% total return. And remember to re-invest the dividends! Income needs to be re-invested in order to compound.

### Fast but risky

Next up, we have the fast but risky method.

This is where you buy high growth stocks like **Lightspeed POS Inc** ([TSX:LSPD](#))([NYSE:LSPD](#)) and hope to beat the market. Lightspeed POS shares were up 68% in 2020 as of this writing. It would only take four and a half years to get a 1,000% return at 68% annualized. Lightspeed may even beat 68% by the time 2020 is over, as we still have a month to go.

But it's not a sure thing. Any stock that delivers above average gains [also has above average risk of loss](#). If you bought LSPD stock on February 4 and sold it on March 20, you'd have realized a 69% loss. That's much worse than **TSX** in the same period. Of course, the stock later recovered and then some. But you never know when a formerly bullish growth stock will go down and *stay* down.

## Foolish takeaway

As I've shown in this article, \$6,000 can go a long way. Whether you invest in defensive stocks or growth stocks, you can realize a 1,000% return and grow your initial deposit into \$60,000. It's all a matter of how long a time frame you have ahead of you. If you take the slow and steady route, you can turn \$6,000 into \$60,000 in an investing lifetime.

If you go the fast and risky route, you might pull it off in just a few years. Whichever path you choose to walk, one thing is certain: money in a TFSA is best spent on investments. It's not until you put your money in the markets that you realize your TFSA's immense tax benefits.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Tech Stocks

### TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:LSPD (Lightspeed Commerce)
4. TSX:TD (The Toronto-Dominion Bank)

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