Got $5,000 to Invest in a TFSA? Turn it Into $509,000 That the CRA Can't Touch

Description

You always hear about the power of compounding. Do you know $100 a week for 15 years can give you $509,000 if your investment grows at a compounded annual rate of 20%? You don't want to pay tax on such a huge sum. And if you are planning on buying a house with that money, you will fall short of cash. Hence, a good idea is to put your $100/week savings — let's round it off to $5,000 a year — in a Tax-Free Savings Account (TFSA).

Why invest $5,000 every year in a TFSA?

The TFSA is one efficient saving mechanism popular among the younger generation because of its flexibility to withdraw tax-free. Every year you can contribute an amount, as decided by the Canada Revenue Agency (CRA), in the TFSA from your taxable income. Once the after-tax amount goes into TFSA, the CRA can't touch it. It can neither restrict nor tax your withdrawals.

This tax-free withdrawal makes it an apt tool to plan your financial goals. If you have $500,000 in your TFSA after 15 years, you can withdraw the entire amount and buy a house. The CRA won't charge income tax on that amount, although there will be other taxes related to house purchase.

For instance, you started investing $5,000 every year in TFSA since it began in 2009. Your stock portfolio is giving you a 20% compounding return. You can have $509,000 at the end of 15 years, which is by 2024.

Where should you invest your TFSA money?

Now that you know why you should invest in TFSA, the next question is, where should you invest? Remember, the objective is to keep our annual return at 20%. There will be periods of slow growth and high growth, but in the long term, they all balance out. The first step is to put that $5,000 in TFSA, because if you keep it in your wallet, you might spend it.

You can't just put all your money in one stock and forget about it. That will give you returns, but maybe not as high as 20%. Moreover, the risk will be significant if it's a company like **Air Canada**, which has lost 54% of its valuation, with no recovery in sight for five years.

So, it is good to diversify into some resilient high-growth and dividend stocks. This diversification will mitigate the downside. It's a good habit to look out for top stocks to buy every month or every year to keep a tab on good stocks. Many a time, you will see the same stock repeat every year in the top picks.

I have been bullish on **RioCan** (TSX:REI.UN) this month. If you'd bought the stock at the start of November, you locked in a lifetime dividend yield of over 9.9%. This yield can balance declines in other stocks. RioCan stock has surged 26% so far and will grow another 50% in a year or two, as it returns to the pre-pandemic level.

Then back in September, **Lightspeed POS** (TSX:LSPD)(NYSE:LSPD) was on the top stock list. At that time, the stock was trading at $40, as tech stocks saw a correction. Investors encashed some investment, as there was uncertainty around the next phase of the fiscal stimulus package. The CRA switched from Canada Emergency Response Benefit (CERB) to Canada Recovery Benefit (CRB). Since then, Lightspeed stock has rallied a whopping 73%.

Investor corner

If you don't know which stock is better for you, follow one or two analysts and investors whose investing style and advice is in sync with your goals and risk appetite. Many people follow investors Warren Buffett and Prem Watsa, as they have a record of profiting from their investments.

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3. TSX:LSPD (Lightspeed Commerce)
4. TSX:REI.UN (RioCan Real Estate Investment Trust)

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pujatayal