Canada Revenue Agency: How to Turn Your TFSA Into $1 Million

Description

The Tax-Free Savings Account (TFSA) is a wonderful tool that allows you to protect investment income and profits from the Canada Revenue Agency. There's no excuse not to use it.

You'd be surprised how fast your TFSA can grow!

The new TFSA limit for 2021 is $6,000. This means that if you have been eligible for the TFSA since 2009, and you've never contributed to a TFSA, you would have a contribution room of $75,500 on January 1, 2021.

It doesn't take much at all to be eligible for the TFSA. You just need to be 18 years old and have a valid social insurance number.

How long does it take for your TFSA to get to $1 million?

If you're starting with a lump sum of $75,500 in your TFSA, it'd take you 28 years to cross the $1 million mark on a reasonable 10% return every year.

If you're starting with $6,000 in the year 2021, and you continue to contribute $6,000 to your TFSA annually, it'd take you 30 years on a 10% rate of return. So, the earlier you start saving and investing, the harder your money can work for you and the sooner you'll reach a $1 million TFSA.

How to shorten the time it takes for your TFSA to get to $1 million

You can shorten the length of time by aiming for greater returns. For example, market crashes are excellent times to buy. Occasionally, specific stocks will also experience corrections, at which time it would be an incredible buying opportunity, if the drop was due to some temporary factor that doesn't impact the businesses' long-term prospects. So, you want to maintain a buy list of stocks you're interested in owning.

You can include growth stocks in your TFSA portfolio to fuel greater growth that surpasses the 10% annualized return target. For example, cyclical stocks, such as **CN Rail**, **Aritzia**, and **Teck Resources**, should do well in a recovering economy. However, the latter two might require greater attention from shareholders.

You can also consider tech stocks such as **Shopify** and **CloudMD** on corrections. Although past performance doesn't imply future performance, it's good to see both growth stocks have long-term upward trends. In the last 12 months alone, they've appreciated 176% and 193%, respectively.

If you can just improve your returns to 12% a year, it'd take a $75,500 TFSA portfolio 23 years (instead of 28) to arrive at $1 million. Similarly, with a 12% rate of return, a TFSA that is fueled by $6,000 a year will achieve $1 million in 26 years (instead of 30).

More food for thought

Trading stocks more frequently doesn't necessarily lead to greater returns. The bottom line still requires you to make correct decisions when choosing the sectors, industries, or stocks to invest in. For example, you might deem tech, e-commerce, cybersecurity, artificial intelligence, and 5G to be growth areas you want to invest in for the long term.

You can either gain exposure via exchange-traded funds or determine the top stocks with the best potential in the respective industries. It could serve you better to also look on the U.S. stock exchanges for a greater diversity of ideas.

The Foolish takeaway

Saving and investing in stocks early and consistently in your TFSA is your best bet of reaching $1 million (over other asset classes). You should aim for annualized returns of at least 10% each time you buy a stock. Remember to track your results over time to make improvements to your strategy.

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