2021 TFSA Contribution Room: What to Buy With $75,500

Description

TFSA contribution room is set to increase by $6,000 next year. That means that, if you're 29 or older, you'll have $75,000 in total tax-free space. That's a fair amount of money, and it can grow to become much more. Even with just a 10% annual return, you'll double your money in 7.2 years. That's a very achievable return. The result would be to turn $75,500 into $150,000. In this article, I'll explore two types of investments that could get you there — plus one for the more risk averse.

Stocks

Stocks are an obvious contender for TFSAs. They have the highest average return of all publicly listed securities, and they offer both dividends and capital gains.

One stock that's looking promising heading into 2021 is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). It recently posted 80% earnings growth thanks to its sale of TD Ameritrade to **Charles Schwab**. Even with that deal taken out of the equation, TD posted a small positive earnings growth rate (about 1%) year over year.

Bank stocks like TD got hammered by the COVID-19 pandemic this year. But now, they're starting to turn it around. TD, in particular, is already getting past its COVID-19 damage, yet you can buy it for cheaper than it was a year ago. By the way, this stock yields about 4.4% at today's prices, which means $2,200 in annual dividends on every $50,000 invested.

ETFs

ETFs are another investment you could consider for your TFSA. These are pooled investment funds that hold entire portfolios of stocks and bonds. They have built-in diversification, which reduces risk. And their fees are often very low.

Consider **iShares S&P/TSX 60 Index Fund** (TSX:XIU), for example. For a small 0.18% annual fee, you get a complete cross section of the TSX 60 — the largest 60 Canadian stocks by market cap. With

60 stocks, the fund has ample diversification. That means your risk is lower, because your eggs aren't "all in one basket." On top of that, the fund has a solid dividend — yielding about 2.8% at today's prices. So, you can get $1,400 in annual cash back on every $50,000 invested.

You can also look at bond funds like **BMO Mid-Term U.S. Corporate Bond ETF**. These funds are build on bonds and pay interest instead of dividends. Their capital gains potential isn't as good as stock funds. But their safety is second to none.

GICs

Last on the list we have Guaranteed Investment Certificates (GICs). This is basically a kind of "bond" where you loan your bank money and they pay you back a higher amount. The returns on these aren't great. If you look at TD Bank's website, the highest annualized rate on offer for a GIC is 0.88%. You're definitely not going to double your money like that. But if you really aren't comfortable with the risk in stocks or even bonds, then a GIC is one investment you can consider that should at least perform better than savings account interest.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)
3. TSX:XIU (iShares S&P/TSX 60 Index ETF)
4. TSX:ZIC (BMO Mid-Term US IG Corporate Bond Index ETF)

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