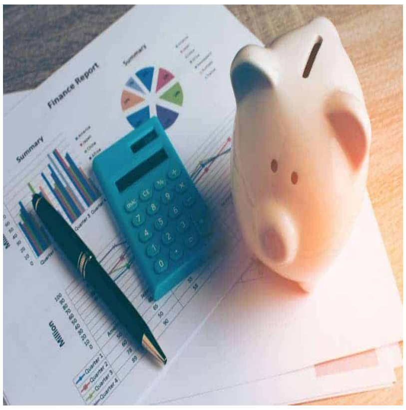

How to Turn a $30,000 TFSA Into $1,000,000

Description

Tax-Free Savings Accounts (TFSAs) are the perfect tool to save taxes and to keep your hard-earned investment income or gains from the taxman. If you've never contributed to a TFSA, you could have as much as $75,500 of contribution room this year.

Regularly save to invest

The TFSA is a savings tool before it's an investing tool, which is why there's more contribution room each year. Therefore, it's also important to continue contributing to your TFSA every year to the max to take advantage of the tax-free compounding.

How to turn a $30,000 TFSA into $1,000,000

Let's be very conservative and say that you're starting out with a $30,000 TFSA instead of a $75,500 one. How can you turn $30,000 from year zero to $1,000,000?

Here's one way: invest for a very reasonable 10% rate of return and continue to contribute to your TFSA regularly to the max. Assuming there will continue to be $6,000 additional room for your TFSA every year, you'll end up with more than $1,078,000 in year 26. If you can get a 12% rate of return (which is still very achievable), you'll get to the $1,000,000 goal by year 23.

Getting +10% returns

A big chunk of the Canadian market is in the energy or materials sectors that are cyclical and don't deliver consistent returns. Financials, utilities, and real estate stocks can deliver a more reliable +10% rate of return if you buy at the right price.

After a big rally from the pandemic market crash last year, investors need to choose carefully to get +10% rate of returns from those areas. **Fortis** stock has gone sideways for some time. At about $52 per share at writing, it can deliver long-term returns of close to 10%. If it falls to $50 per share or lower, that 10% will be more guaranteed.

The Canadian stock market only houses about 3% of the world's equity market value, though. Therefore, you're missing out on a lot of incredible opportunities if you only invest on the Canadian stock exchanges.

The U.S. stock market houses close to 54% of the world's market value. Investors should seek stock ideas from it for diversification in technology and healthcare.

You can also opt to invest in high-growth stocks, because booked capital gains from these stocks are tax-free inside a TFSA and could be life-changing.

Last week, I'd discussed three ways to make a +10% return every year. You can explore them for a strategy (or a mix of the three) that works for you.

More food for thought

By saving regularly and buying stocks selectively to aim for a return of +10% per year in your TFSA, you will eventually get to a $1,000,000 TFSA portfolio. Fortis stock appears to be a good candidate especially on any further dips. Interested investors can nibble here, buy more at about $50, and back up the truck if it falls to the $44-48 level.

If you throw in some high-growth stocks in your TFSA, you can achieve $1,000,000 in your TFSA much sooner!

Futu is similar to Robinhood but is focused in China. It's growing at a high pace with revenue and earnings-per-share growth of more than 154% and 385%, respectively, in the last 12 months. Rumour has it that Robinhood will have its initial public offering in the first quarter of this year. If it does, more North American investors will learn about Futu stock and scoop up the growth opportunity.

Fortis and Futu are two stocks that are at opposite ends of a spectrum. One is a decent dividend stock with stable growth and the other is a high-growth stock. At the end of the day, you should hold stocks that you're comfortable with in your TFSA. Because if you're not, you might not be able to hold them through times of extreme volatility.

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