



TFSA Increase 2021: How to Make Your Money Work for You

Description

Tax-Free Savings Account (TFSA) investors have reason to be thankful in 2021. The TFSA contribution limit was just increased \$6,000! That's another \$6,000 of your personal wealth that can start compounding, completely tax-free. If you were 18 years or older in 2009, your total contribution capacity will now be \$75,500 (including this year's boost).

Don't make this TFSA mistake

However, recent [studies](#) have indicated that many Canadians are not necessarily maximizing the opportunity in their TFSA. Many Canadian banking institutions offer "exciting" high-interest (between 1% and 2.5%) TFSAs. Consequently, almost half of Canadian TFSA users have settled to use the account as a savings account.

That is great for the bank, but not so great if you're trying to build wealth. Firstly, even a market high 2.5% interest rate will hardly earn anything when annual inflation sits between 1% and 3%. At that rate, in 10, 20, or 30 years, your money could actually be less valuable than when you first contributed. Secondly, if the point is saving tax, then why waste it on a paltry 2% annual return? You essentially get no extra benefit using your TFSA as a savings account.

The power of compounding wealth

The point here is, the TFSA is a great mechanism to compound wealth through *investments*. There is no better way to compound wealth than by investing in great companies, keeping *all* your returns, and reinvesting in them continuously. That is the true power of the TFSA. If I was starting out with \$6,000 in 2021, here are two stocks I would be thinking about holding in my TFSA.

This is a hold-forever TFSA stock

The first TFSA stock is **Algonquin Power** ([TSX:AQN](#))([NYSE:AQN](#)). It operates a diverse group of

utilities and renewable power operations across North America. Undoubtably, markets are going to see more volatility in 2021. Fortunately, Algonquin is as stable as it gets. 70% of its revenues are regulated, and the remainder are derived from long-term power-purchase agreements.

Algonquin is set up perfectly to prosper from a Joe Biden administration in the United States. Most of its operations are in the United States. There, it is increasingly being recognized as a leading operator, developer, and partner in creating green power solutions in North America. Consequently, a new green energy stimulus plan will create ample opportunities to boost Algonquin's development pipeline.

Algonquin is an ideal TFSA stock, because it offers safety and growth. It is in the midst of a large scale five-year capital plan. Over the next five years, it expects to accrete a rate-base and earnings per share CAGR of 11% and 8-10%, respectively. That's not including any new acquisitions either. The stock pays a nice 3.8% [dividend](#), but that will undoubtably grow at the pace of earnings growth going forward.

Own this cash machine in 2021

If you are looking for a bit of a growth boost in your TFSA, then **Constellation Software** ([TSX:CSU](#)) should be on your radar. It has a unique strategy. Constellation acquires good software-as-a-service (SaaS) businesses in niche markets. It then plows in capital, mentorship, and best practices, turns them into cash cow enterprises, and then reinvests the cash into new acquisitions. This has fuelled exceptional growth over the past decade, making this stock one of the **TSX's** top performers.

While growth is slowing to some extent (simply due to the law of large numbers), Constellation is experimenting with new ways to accrete value. One area is to spin-out some its more mature parts into new publicly traded stocks. On a smaller scale, these enterprises hope to do the same roll-up strategy, but in their niche areas of focus.

One example is its recent spin-off of **Topicus.com**, which will soon be trading on the **TSX Venture Exchange**. Regardless if this strategy works, the company is a cash flow machine. It has a net cash position, numerous areas for expansion, and great management. It is certainly worth a TFSA investment in 2021!

CATEGORY

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TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)
3. TSX:CSU (Constellation Software Inc.)

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