How to Turn a $100K TFSA Into $1M in 12 Years

Description

Congratulations on building a $100,000 Tax-Free Savings Account (TFSA). By now, you should have gained some valuable stock investing experience, which can assist you in propelling your TFSA into $1,000,000 in 12 years.

Specifically, you'll need to target a 20% rate of return on your stock investments. That's right. There's no other asset class that'll deliver that kind of returns.

You might be skeptical about the feasibility of this goal because only the greatest investors — like and Peter Lynch and Warren Buffett — have achieved long-term returns like this.

A market crash scenario is not necessary

It doesn't necessarily require a market crash scenario, though, it would surely move ahead our 12-year deadline. Tonnes of blue-chip stocks that provided safe dividends were oversold during the pandemic crash last year.

For example, from a low to their current levels, **TD** and **CNR** stocks are up about 50%. In other words, you didn't need to buy at the lowest point, just need to buy when the stock of a solid company crashes along with the rest of the market.

We're not experiencing a market crash right now. In this case, large-cap growth stocks and small-cap stocks with a bright future can help us achieve a 20% rate of return.

Large-cap growth stocks

The great thing about investing in a TFSA is that most stock returns are tax free inside, including dividends and booked price appreciation. One exception is foreign dividends that have withholding taxes, which are lost.

For this reason, you should hold U.S. dividend stocks that pay decent qualified dividends in an RRSP/RRIF over a TFSA. Otherwise, there would be a 15% withholding tax on the U.S. dividends.

This makes TFSA the perfect place to invest growth stocks.

Alibaba is a wonderful business that provides diversity outside of North America. The e-commerce behemoth in China has established platforms to sell from consumer to consumer as well as from business to consumer.

At US$243 per share, BABA trades at a PEG ratio of close to one. And it's expected to grow its earnings per share at a compound annual growth rate of 24% per year over the next three to five years. So, it's very attractive.

Brookfield Asset Management is a super diversified business in terms of its operations and the geographies it operates in. It's a global alternative asset manager with US$575 billion of assets under management across real estates, renewable power like hydro- and wind-powered facilities, infrastructure, private equity, and credit. From its current levels, analysts estimate a total return of about 28% over the next 12 months.

Small-cap stocks

Small-cap stocks are a riskier group of stocks to invest in. There's a larger pool of investors who are looking for quick profits in small-cap stocks. Moreover, any news that impacts the company can drive a big rally or selloff in the stock. Therefore, small-cap stocks could be very volatile. Whereas it's normal for the market to go up or down 3% in a day, it's quite common for small-cap stocks to rise or decline 10-20% in a day.

You need to select extra carefully and invest in the ones that have a bright future. If you hit the jackpot, you'll know fairly quickly because the stock could double or triple within a fairly short time.

You could go treasure hunting on the TSX Venture Exchange. Often, stellar companies graduate from the TSX Venture Exchange to the **TSX** sooner or later. **WELL Health** and **Xebec** both jumped from the TSXV to the TSX. Their three-year returns were approximately 150% per year, respectively.

Don't let the past returns entice you, though. Their future returns can be much lower given that they are bigger companies and have had very nice runs over the past few years. You could better secure +20% returns by searching for the next jackpot among the top companies on the TSXV.

The Foolish takeaway

By generating 20% total returns per year from a TFSA that you continue to contribute $6,000 a year, you'll arrive at $1,000,000 from $100,000 in 12 years. Specifically, you'll reach $1,176,590 by the end of the period.

If you're investing in large-cap growth stocks, divide your capital across 10-20 top ideas. If you're investing in small caps, divide your capital across at least 25 ideas or size your positions accordingly.

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