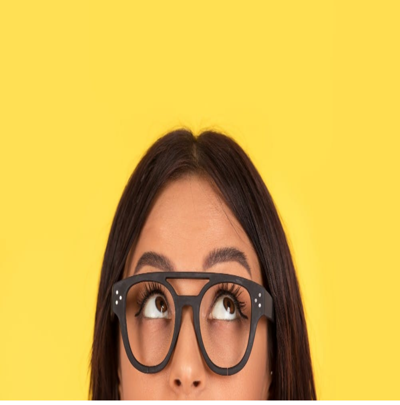

How to Turn a $10,000 TFSA Into $1,000,000

Description

If you asked me 10 years ago how to turn a $10,000 Tax-Free Savings Account (TFSA) into $1,000,000, I would say make maximum TFSA contributions every year and invest in proven dividend growth stocks. I still think that's one of the surest, safest, and most stable ways to achieve a TFSA worth a cool one million.

However, after gaining more than 10 years of stock investing experience down my belt, my answer would be a little different today.

I'd say make maximum TFSA contributions every year, invest in proven dividend-growth stocks, and expand into higher-growth stocks after you've learned the ropes.

Actually, this doesn't just apply to the TFSA. It can apply to your overall stock portfolio across TFSAs, RRSPs, RESPs, and non-registered accounts. It's just that in TFSAs, the growth will be faster with no dampening from income taxes.

Dividend stock investing in your TFSA

Dividend stocks can be growth or income oriented. Some give a balanced mix of the two. Here are some examples.

Brookfield Asset Management is a growth-oriented dividend stock. It yields 1.2% and can grow at a rate of 12-15%.

Enbridge is an income-oriented dividend stock. ENB stock yields 7.4% and can grow 3-5% per year in the foreseeable future.

Fortis stock has a balanced profile for current income and growth. It yields 3.9% and can grow by about 5-6% a year.

If you build an equal-weight portfolio in these stocks that are trading at good valuations today, you should get long-term annualized total returns of at least 10%.

The TFSA contribution limit is going to increase over time. However, let’s assume it’s going to stay at $6,000 a year. From a $10,000 TFSA portfolio today, with $6,000 of annual contributions, on a 10% annualized return, you will arrive at more than $1,000,000 in 28 years.

Through investing in proven dividend-growth stocks, you should learn the ropes about value and dividend investing. What makes a quality business? When is a common stock cheap? What makes a dividend safe?

If you know the answers to these questions, you can consider expanding your portfolio into higher-growth stocks for even greater returns.

Expanding into higher-growth stocks in TFSAs

I began exploring higher-growth stocks starting with **Tencent** around mid-2018 when it retreated to more reasonable valuations. I added to the stock when it continued its descent. Overall, my position has delivered annualized returns of more than 30%. The stock looks fully valued at current levels, though.

The point is that growth stocks of businesses that are increasing their earnings or cash flow by +20% annually can push the date of you getting a $1,000,000 TFSA much sooner.

From a $10,000 TFSA portfolio today, with $6,000 of annual contributions, on a 20% annualized return, you will arrive at more than $1,000,000 in 18 years.

Stocks in the small-cap space can also achieve +20% growth. In fact, some businesses are growing so fast that their stocks could appreciate much higher, much sooner.

For example, I began buying **Futu** at under US$38 per share when it was trading at a good valuation versus its high-growth rate. In a little over a month, the stock has outrageously tripled thanks to the market realizing its growth potential. As a result, the stock also appears fully valued.

The tricky part about investing in high-growth stocks is holding on to the shares, as I always want to invest in the next stock that can potentially deliver similar high growth but hasn’t run up yet.

When high-growth stocks like Tencent and Futu are fully valued, it’s safer for investors to nibble and then wait for a meaningful correction or a consolidation before buying a meaningful position.

More food for thought

If high-growth stocks can compound wealth much faster, why don’t I allocate my entire investment portfolio in these stocks? Such a portfolio would be much more volatile. Take Futu as an example. It can easily go up or down 10% a day.

Experienced investors can explore having a balanced stock portfolio between more stable proven dividend-growth stocks like BAM, Enbridge, and Fortis and higher-growth stocks like Tencent, Futu, and small-cap stocks with potential.

The meaning of balance could mean 95% in the former group and 5% in the latter group or a 70%/30% mix. It would be different for everyone depending on their risk tolerance, temperament, and comfort.

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