TFSA Wealth: How to Turn $6,000 Into $180,000

Description

Tax-Free Savings Account (TFSA) investors received an extra $6,000 in contribution space in 2021. How can you invest $6,000 in savings and grow it to $180,000?

TFSA advantage

The government launched the TFSA in 2009. Since then the contribution limit increased to $75,500 for Canadian residents who were at least 18 years old in the first year of the plan.

All interest, dividends, and capital gains earned inside the TFSA remain beyond the reach of the CRA. Investors enjoy the flexibility to remove funds at any time and the amount withdrawn opens up new contribution space in the following calendar year so you can put the cash back at at later date.

Retirees like the TFSA because it offers a source of tax-free income that won't trigger an OAS clawback . Younger investors can use the TFSA to save for a down payment on a house,or build a retirement fund.

Best stocks for a TFSA

GICs don't pay much these days, so many investors are turning to stocks to help grow their TFSA portfolios.

Last year's market crash offered a great buying opportunity. Today, the overall stock market appears expensive based on historical metrics. The Buffett indicator, which measures the total value of the stock market against GDP, is near an all-time high. The simple metric favoured by Warren Buffett is one tool used to predict when the stock market might be near a peak or a bottom. At the moment, warnings signals are going off to suggest a meaningful market correction could be on the way.

This doesn't mean investors should sit on the sidelines, however. In fact, some top TSX stocks still trade at reasonable prices and pay attractive dividends while you ride out market volatility.

The best stocks to own tend to be industry leaders that have strong track records of dividend growth. Let's look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see why it might be an interesting TFSA pick right now.

Royal Bank of Canada

Royal Bank earned $11.4 billion in profits in fiscal 2020 — down 11% from the previous year, but it is still an impressive performance given the challenges the banking industry faced during the year. As with every major economic crisis in the past century, Royal Bank is navigating the pandemic in decent shape.

In fact, provisions set aside last year for potential loan losses were likely too high and investors should see Royal Bank and its peers make adjustments in the coming quarters to reflect the better-than-expected situation. While this doesn't mean that pain isn't on the way once aid programs expire, loan defaults should be manageable.

Analysts expect the government to give the banks the green light to raise dividends by the end of the year. Royal Bank investors could see a big increase when that occurs. Share buybacks are also possible and Royal Bank could use its large cash position to make a strategic acquisition to boost growth.

Long-term investors have done well with the stock. A $6,000 investment in Royal Bank shares just 25 years ago would be worth $180,000 today with the dividends reinvested.

The bottom line on TFSA investing

Royal Bank isn't as cheap as it was last spring, but it remains a top **TSX** stock that deserves to be an anchor TFSA pick. Patience is required, but the strategy of owning leading dividend stocks and using the distributions to buy new shares is a proven one for building wealth.

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