



TFSA Investors: How to Turn \$10,000 Into \$240,000 in 25 Years

Description

Canadian investors are using their TFSAs to set cash aside for retirement. The strategy is a great one for investors of all ages, but young savers really have an advantage.

The power of compounding in a TFSA

All interest, dividends, and capital gains earned inside a TFSA remain beyond the reach of the CRA. This means the full value of [dividends](#) can be reinvested in new shares. Using distributions to acquire additional stock harnesses a powerful compounding process that can turn modest initial investments into large savings over time. The trick is to have two or three decades to let the magic work.

When the day comes to cash out and enjoy the money, all the profits go straight into your pocket. That's different from RRSP savings, which are taxed as income when the withdrawal is made. The benefit of the [RRSP](#), however, is that you reduce taxable income by the amount of your contributions.

The best stocks to buy for a TFSA retirement fund

Search for top **TSX** stocks that exhibit strong track records of dividend growth supported by rising revenue and higher profits.

The TSX is home to many great businesses that have performed well over the years and helped make buy-and-hold investors rich. Let's take a look at **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) to see how the power of compounding works.

Bank of Nova Scotia

Bank of Nova Scotia just reported solid results for fiscal [Q1 2021](#). Adjusted net income came in at \$2.42 billion, up 3% from the same period last year. Return on equity was a solid 14.4%.

The performance indicates the strength of the bank's operations, despite the pandemic challenges. Bank of Nova Scotia's Canadian personal and commercial banking, capital markets, wealth management, and international banking units all performed well in the quarter.

As the global economy ramps up post-pandemic, Bank of Nova Scotia's international businesses should see strong growth. The group primarily operates in Mexico, Peru, Chile, and Colombia. These countries rely heavily on strong oil and copper prices. Oil now trades at a 13-month high, and copper is at a nine-year peak.

Bank of Nova Scotia's CET1 ratio is 12.2%. This means it has significant extra capital and could deploy the funds to benefit shareholders in a number of ways. The Canadian banks will likely get approval to raise dividends again by the end of the year. Bank of Nova Scotia might also launch an aggressive share buy-back program. An acquisition could also occur, although Bank of Nova Scotia already made several large moves in recent years to grow the wealth management business and the international operations.

The stock provides an attractive 5% yield, even after the strong rally in recent months.

Long-term investors have done well with Bank of Nova Scotia. A \$10,000 investment in the stock 25 years ago would be worth about \$240,000 today with the dividends reinvested.

The bottom line on TFSA investing

The TFSA is a great tool to set cash aside for retirement. Buy-and-hold investing takes patience and discipline, but the rewards can be significant. Fortunately, the TSX Index is home to many top stocks like Bank of Nova Scotia that have delivered fantastic returns and deserve to be on your radar today.

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