



TFSA Investors: How to Grow Tax-Free Wealth Your Way

Description

Everyone has a different strategy to invest in their TFSA to grow their tax-free wealth. The strategy is unique to them, because each person has unique investing experience, risk tolerance, temperament, and investment horizon.

I naturally started my TFSA with stocks from day one and have never looked back since. If my memory serves me right, the GIC rate was about 4% at the time, and I could easily get *growing dividend income* with an initial yield of 4%.

Interest rates are much lower now with the best five-year GIC rate at about 1.8%.

If you're afraid to step into the stock investing world, just know that you don't need to know everything to start. In fact, it's absolutely normal to learn along the way! Heck, my TFSA portfolio looks very different from how it did 12 years ago.

I'll discuss some TFSA stocks that I currently own. They should give you an idea of the potential tax-free wealth or income you could create.

RBC stock

I picked up some **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) stock during the pandemic market crash last year. It's an easy investment to understand for new investors, and it's one that they can trust.

Essentially, any time you see a correction of 10-20% in the banking leader, see it as a buying opportunity for long-term investment. It'll likely offer a starting yield of 4% or higher at the time. Remember that during market downturns, you never have to buy at the absolute bottom to make good money from quality businesses.

RBC stock is about fairly valued now. However, if the economy continues on its recovery path, the stock can grind higher and deliver returns of about 10% per year over the next couple of years.

Get big income from this dividend stock

TC Energy ([TSX:TRP](#))([NYSE:TRP](#)) appears to be a better value right now. The dividend stock has consolidated since November 2020. And it seems to be on the verge of breaking out higher. If so, it could soon trade close to the analyst consensus target that suggests upside of about 17% over the next 12 months.

In any case, you get paid a hefty dividend yield of 5.9% to wait. A \$5,000 investment will pay about \$295 a year for starters.

[TC Energy](#) is a Canadian Dividend Aristocrat with a 20-year dividend increase track record. Its safe and rising dividend is one reason why it pays a big dividend. It just increased its dividend by 7.4% last month.

Want greater tax-free growth?

You can increase your tax-free returns in nice-yield dividend stocks like RBC and TRP stocks by aiming to buy them when they're on sale. You can potentially generate even greater tax-free growth by buying stocks that are more focused on growth.

That is, once you're very comfortable with stocks like RBC and TRP, you might start exploring higher-growth stocks that pay low to no yields.

For example, [Enghouse Systems](#) is a low yield but typically high-growth Canadian Dividend Aristocrat. Although it has a puny yield of 1%, its 10-year dividend-growth rate of 21% is amazing. And in the period, its annualized returns were extraordinary at 29%! The tech has recovered nicely from the low in late February but is still a good value according to the analyst consensus 12-month price target that suggests 22% near-term upside potential.

The Foolish takeaway

I hope my TFSA stock examples give you some food for thought on the potential tax-free income or growth that you could build in your TFSA. Personally, I don't see any reason to not invest in stocks in one's TFSA, unless you need the money in the short term or it makes you lose sleep to take the risks that stocks bring.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
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POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TRP (Tc Energy)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TRP (TC Energy Corporation)

PARTNER-FEEDS

1. Business Insider
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