Here’s How $500 a Month in Your TFSA Can Grow to $1 Million in Just 30 years

Description

It’s no secret that saving and investing are crucial for retirement and getting closer to financial freedom. Saving is important and a great start, but it’s crucial to invest and grow that money using the power of compound interest to your advantage. That’s why the Tax-Free Savings Account (TFSA) is so crucial for Canadians.

Compounding is extremely powerful. You aren’t just potentially saving yourself thousands of dollars in taxes by utilizing the TFSA. You’re also allowing your money to compound a lot faster.

How to use the TFSA to compound your savings

By utilizing the TFSA, even Canadians with no savings can grow their TFSA to $1 million in 30 years, and it’s not that difficult. All you have to do is save $500 a month for $30 years and grow your portfolio at a 10% compounded annual growth rate (CAGR).

A 10% CAGR may sound pretty high, but several Canadian stocks have grown at that rate for years. Plus, if you invest for the long term, it becomes a lot less difficult to achieve.

So, investors only need to save $500 a month in their TFSA for 30 years — a total of $180,000 in savings — while buying the top long-term stocks in Canada that can grow your portfolio at a 10% CAGR. Do that, and your TFSA would be worth $1,031,000.

Plus, if you already have savings, it’ll take you even less time. For example, for investors who already have $50,000 in investments today, it’ll only take you 23 years to reach $1 million. And if you continued at that pace, after 30 years, you would have a whopping $1.9 million TFSA.

Choosing the best investments for your portfolio

One of the biggest factors, of course, is the stocks you choose for your TFSA. Not only do you want businesses that can grow rapidly for years, but you also don’t want to lose your money, because it makes it that much harder to continue earning that 10% CAGR.

It can be tempting to buy high-risk, high-reward stocks. However, it's much better to buy businesses that are reliable and can grow consistently. This is a strategy that Warren Buffett has employed, and his portfolio has grown at a CAGR of 20% over the last 55 years.

Stocks, like **Canadian Apartment Properties REIT** (TSX:CAR.UN), that have high-quality operations, are dominant companies in their industry, and operate in industries that are growing are the types of businesses to look for.

CAPREIT is one of the top stocks to consider, because it is the biggest and most liquid Canadian stock in the residential real estate industry.

Residential real estate is highly defensive. However, it's also an industry with a tonne of growth potential, especially as Canada's population continues to grow.

So, buying stocks like CAPREIT that have proven to take advantage of this substantial growth is an ideal way to grow your TFSA with consistency and stability.

Over the past 10 years, unitholders have earned a more than 330% return or a CAGR of more than 15%. And over the past 20 years, investors have received a total return north of 1,200% or a CAGR just shy of 14%.

This just goes to show how consistent CAPREIT has been. However, it also shows the returns that are possible when you buy high-quality stocks to hold for years.

Bottom line

Finding dominant businesses like CAPREIT, which have top-notch operations in stable and growing industries, will be the best investments for the long term.

So as long as you stay disciplined, patient, and focus on buying these high-quality stocks for the long run, growing your TFSA to $1 million is well in the realm of possibility for all Canadians.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
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