Compound Interest: How to Grow Your TFSA to $1 million!

Description

We all know that investing is so important to help us reach financial freedom and plan for retirement. So as Canadians, we are lucky to have tools that can help us reach our goals quicker. Having registered accounts like a Tax-Free Savings Account (TFSA) can have a huge impact on your long-term performance, especially if you take advantage of compound interest.

Compound interest is, as Albert Einstein put it, "…the eighth wonder of the world." Einstein also added, "He who understands it, earns it … he who doesn't … pays it."

Allowing your money to continue to grow each year with compound interest creates a snowball effect that ends up growing exponentially.

That's why the classic question, "Would you rather have a penny doubled for thirty days or $1 million?" You should take a penny doubled for 30 days. On day 27, you would have over $600,000, which means by day 28, you would have over $1 million, and by day 30, upwards of $5 million.

The TFSA is so important because it allows you to compound more of your money, which ultimately leads to faster growth. Because you don't have to pay tax on the Canadian stocks you buy in your TFSA, all that money can continue to be compounded each year.

How much can you earn with compound interest over 30 years?

Compound interest has the potential to grow your money rapidly. An investor with $25,000 today that saves $500 a month ($6,000 a year) and grows their portfolio at a compound annual growth rate of 8.5% would see their portfolio worth $1 million in 30 years.

That's right, on just $205,000 of total savings of 30 years, an investor could earn over $850,000 of interest. And because it compounds so rapidly, if you left it to grow in your TFSA for another 10 years (40 years total), it would be worth more than $2.5 million.

This is the power of compound interest. The longer you give your money to invest, and the more you can save, the faster it will compound.

The trick is making sure you buy high-quality stocks, ones that will grow consistently and without much volatility. It also helps to find stocks that pay a dividend.

Not only will the dividend income help your portfolio to be more stable in the long run, but it also earns you even more cash to find new investments and continue to compound your capital.

A top dividend stock to buy for the long-term

Many blue-chip stocks will be ideal as your core holdings in your TFSA. These massive companies are highly stable and will return you excellent cash, which you can use to invest in higher growth companies or reinvest it in the blue-chip stocks, taking full advantage of the compound interest.

While several Canadian stocks are worth buying today, one of the best that offers a major dividend yield is **BCE** (TSX:BCE)(NYSE:BCE).

The entire telecom industry is an ideal industry for a long-term investment. But of all the stocks in the sector, BCE is both the largest and the best for income and stability.

BCE has massive and, more important, well-integrated operations. This makes the company a cash cow and allows it to continue to grow its business each year.

This growth in its business not only contributes to an ever-increasing share price but also allows BCE to increase its dividend every year. This is ideal for investors looking to use that cash flow to reinvest in other stocks and take advantage of compound interest to grow their TFSA's.

And as attractive as BCE has been for dividend investors in the past, today, it's especially attractive for long-term investors as 5G technology offers significant growth potential.

So if you're looking to take advantage of compound interest and grow your TFSA to $1 million or more, I'd be looking at buying high-quality stocks that are just like BCE.

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