1 Trick Every New Investor Needs to Know Before Opening a TFSA

Description

Odds are, if you're a Canadian over the age of 18, you've already heard about the Tax-Free Savings Account (TFSA). The TFSA is an excellent option to allow Canadians to save and invest their money. Then, unlike many other savings accounts that allow investing, you can take out the cash at any time you want.

The only main sticking point is the contribution room, especially if you're on the younger side. If you were 18 when the TFSA came into existence, this year you have up to $75,500 in contribution room (if you've never contributed before). However, if it's your first year at 18, that's only $6,000 in contribution room.

While that's a lot of money for some, if you can afford to max out your contribution room of $6,000 and then some, there is a trick that you – and really every Motley Fool investor – should know. In fact, anyone can afford to meet that limit through one simple tool.

First, create those savings

If you're a younger investor, you may not have the cash on hand to start up a TFSA. That can be frustrating, but I swear there is an easy way to achieve this in a timely manner. In fact, you can do this every year as soon as you start a full-time paying job!

Let's say you make about $50,000 each year. If you were to take 10% of each paycheque and put it into a TFSA, you would have the contribution room by the year's end of $6,000!

But what if you make a bit more, or get some cash during the holidays you want to invest? Bad news: you'll have to pocket it for next year. But there *is* some good news. If you want to invest as much cash as you can, there is a trick you can use to create more money and invest it every quarter, or even every month.

Invest in dividends

Dividend stocks aren't just for retirees. If you're a young investor, this can create an insane amount of wealth over the decades. Even better, by reinvesting your dividends, you can create a larger investment at no cost to you! In fact, you can use that cash and reinvest, thereby adding to your TFSA contribution without breaking any of the rules.

Let's look at an example. Say you were to invest in a company like **Brookfield Renewable Partners LP** (TSX:BEP.UN)(NYSE:BEP). This renewable energy company is a strong long-term investment for younger people who can afford to wait while the company becomes a leader in renewable energy. It also provides a solid, stable dividend yield of 3.09% or $1.50 per share per year.

Now if you were to take that $6,000 and invest it in Brookfield, you would have $185 in extra cash per year to reinvest without adding a cent of your own money! But it gets better. If you continue to add $6,000 every year for the next 30 years, reinvesting that income along the way, you could have a portfolio worth a whopping $6.2 million! And all it took was consistency and reinvestment. Some trick, huh?

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Date
2025/09/02

Date Created
2021/11/10
Author
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