How to Turn $6,000 in TFSA Space Into Lasting Generational Wealth

Description

Can you turn a $6,000 TFSA into lasting generational wealth?

If you invest wisely, then the answer to that question is, "Absolutely."

While a $6,000 TFSA won't likely grow to millions of dollars on its own, regular $6,000 annual contributions could.

A single $6,000 investment compounded at 10% over 30 years grows to $104,000. If you make one such investment like that each year for 30 years, you'll end up with millions. In this article, I will explore a simple three-step process that could take you to that outcome.

Step 1: Invest

The first step toward building lasting generational wealth in your TFSA is to invest. I know, it sounds obvious, but a lot of people never even get that far. Many people open TFSAs and just sit on them, never contributing, let alone investing. So, if you hold investments in your TFSA, you're already well ahead of many people.

Don't feel like you know enough about stocks to invest?

No problem.

Through index ETFs like **iShares S&P/TSX 60 Index Fund** (TSX:XIU), you can get your feet wet with investing with little experience. Index funds are highly diversified, which takes the unsystematic risk out of the equation. In practical terms, this means you don't need to research or know anything about individual stocks to invest in index funds — the risk in each individual stock is diversified away. So, you can just buy an ETF like XIU and sit on it forever. The only risk you subject yourself to is the risk in the market itself.

Step 2: Contribute every year

Once you have started on your TFSA journey with $6,000, your next step is to contribute more every year. As I showed in the introduction, $6,000 compounded at 10% for 30 years only gets you to $104,000. That's a decent amount of money but not "generational wealth." To achieve truly lasting wealth, you'll need to keep contributing and investing every year. If you do that, your regular $6,000 contributions may grow to many millions of dollars.

Step 3: Hold long term

After you've made your first TFSA investments and committed to regular contributions, the only thing left to do is wait. With index funds, you can simply sit on your investments forever, so that type of asset really favours the "slow-and-steady" approach.

If you plan on holding individual stocks like **Shopify** (TSX:SHOP)(NYSE:SHOP) in your TFSA, you may need to trade more actively. Individual stocks *are* subject to unsystematic risk, which means that you need to follow the news about them and possibly sell if it looks like they're about to go broke. On the plus side, these individual stocks can, in a best-case scenario, deliver much better returns than any index could.

Since its IPO, SHOP has compounded at about 95% per year. That's the kind of return that can build lasting generational wealth in far fewer than 30 years. So, maybe such plays deserve a place in your portfolio — just remember, the risk inherent in them is far greater than in index funds.

CATEGORY

1. Investing

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