TFSA Investors: The Only 3 ETFs You'll Need to Own to Retire Rich

Description

When it comes to saving for retirement, the Registered Retirement Savings Plan (RRSP) likely comes to mind first. After all, the account was introduced to encourage Canadians to save for their golden years. However, it's not the only savings account that I'd recommend Canadians use for retirement savings. The Tax-Free Savings Account (TFSA) might have a much lower contribution limit, but it can be an extremely tax-efficient way to save for retirement.

As the name suggests, there are tax benefits to contributing to a TFSA. Withdrawals can be made at any point in time, completely tax free. But the key reason why I'm using my own TFSA for retirement savings is because capital gains are not taxed. Meaning, your investments can grow year after year, compounding completely tax free.

If you have only a few years until retirement, tax-free capital gains may not be that exciting to you. But if you've got decades until you're planning on leaving the workforce, there's no reason why a TFSA cannot fund a meaningful part of your retirement.

The magic of tax-free compounded interest

The annual TFSA contribution limit in 2022 is $6,000. But the total contribution limit, for Canadians aged 18 years or older in 2009, is $81,500.

A grand total of $81,500 is most likely far below many Canadians retirement savings goals. If invested wisely, though, Canadians with decades until retirement can certainly grow that $81,500 into a significant amount of savings.

Let's look at some real-life examples. Let's assume that you were to max out your TFSA with $81,500 right now. We'll also assume that the money will be invested 100% into stocks. At an average annual return rate of 8%, your $81,500 would have more than doubled within 10 years. It would be worth close to $400,000 within 20 years and more than $800,000 after 30 years.

With time and patience, an initial $81,500 investment can turn into a significant amount of retirement savings

. Aside from time and patience, the only guideline is to invest in the stock market to achieve that 8% average annual return rate.

What should TFSA investors be investing in?

If you're new to investing in the stock market, it can seem daunting at first. Rest assured, there's nothing to be afraid of. From the moment you make your first investment, you'll quickly realize that there's absolutely nothing to be intimidated about.

Only a small percentage of people are truly passionate about the stock market, spending hours each week following macro trends and individual companies. For those dedicated investors, I'd recommend picking and choosing individual stocks to invest in.

But for the rest of the population, who do not have the desire to spend hours and hours researching balance sheets each week, exchange-traded funds (ETF) are all you will ever need.

ETFs are baskets of individual stocks, providing investors with instant diversification. The funds can track entire indices, or they can be much more concentrated, focusing on a specific area of the market.

The only three ETFs you ever need to own

When building an investment portfolio, it's important to have broad diversification to both different sectors of the market and geographies. This basket of three ETFs can provide Canadians with global exposure that consists of a range of different sectors.

Vanguard S&P 500 Index ETF follows the performance of the U.S.-based **S&P 500**, which consists of the 500 largest publicly traded American companies. **Vanguard FTSE Developed All Cap ex U.S. Index ETF** provides investors with exposure to a list of more than 20 countries; excluding the U.S., Japan, the United Kingdom, and Canada are the top three countries in terms of holdings in the fund. Finally, **Vanguard FTSE Developed All Cap ex U.S. Index ETF** provides exposure to emerging market countries. China, Taiwan, and India make up the three largest countries in the fund.

CATEGORY

1. Investing
2. Stocks for Beginners

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. ndobroruka

Category

1. Investing
2. Stocks for Beginners

Date
2025/07/21
Date Created
2022/02/02
Author
ndobroruka