2 Ways to Double Your TFSA

Description

In 2022, more contribution room for the Tax-Free Savings Account (TFSA) has opened up. You can invest another $6,000 in this tax-shielded account. For some who qualified for this program since inception, the total contribution room is $81,500. That's a serious sum of money but certainly not enough to live on.

If you're looking for ways to maximize this account's potential, here are some strategies to boost returns over the long term.

Steady growth

There are plenty of growth stocks on the market. However, volatility and cyclicality make most of these unsuitable. For instance, most tech stocks delivered multi-bagger returns during the pandemic and have now wiped off those gains completely. That's not a good strategy for your TFSA.

Instead, it's better to focus on steady growth stocks with a track record of retaining gains. **Constellation Software** (TSX:CSU) is an excellent example. The stock has doubled in value since February 2019. That's an annual compounded growth rate (CAGR) of 26% over three years. In fact, this CAGR has been steady for nearly *three decades.*

These steady compounders are much better picks for your TFSA. If you invest your TFSA in a basket of steady compounders such as Constellation Software, **Kinaxis** and **Dollarama**, and contribute every year you could double the account's value by 2025 or 2026. Kinaxis has compounded at an annual rate of 33.6% since 2014, and Dollarama has delivered 21.3% since 2019.

These steady compounders should be on your radar if you're trying to build durable prosperity.

Dividend reinvestments

Although the growth stocks mentioned above are relatively stable, they're not nearly as safe as dividend stocks. Stocks like **Enbridge** (TSX:ENB)(NYSE:ENB) offer little to no capital gains. But they're also far less volatile and deliver steady dividends.

Enbridge's dividend yield is 6.5% at the moment. Other energy and pipeline stocks offer similar rewards. Investing your TFSA in a basket of these high-yield dividend stocks and *reinvesting the dividends* could supercharge your account. This strategy is easy to apply if the dividend-paying company offers a dividend-reinvestment plan (DRIP) program. Enbridge suspended this program in 2018 but there are other alternatives.

Assuming you generate a 6.5% dividend yield on a $81,500 account, reinvest it and also contribute $6,000 every year, the TFSA could double by 2028 or 2029.

In other words, a dividend-reinvestment plan could help you double your TFSA in six years.

Bottom line

The TFSA is a wonderful tool for wealth creation. However, it's not enough for financial freedom simply because the contribution room is inadequate. To stretch this account, investors need to generate capital gains or reinvest dividends.

A steady growth stock like Dollarama could help you expand your TFSA. Reinvesting dividends from an energy company like Enbridge could help you bolster returns too. With the right strategy, adequate time, and a little discipline, you could double the size of your TFSA before the end of the 2020s.

Good luck!

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3. TSX:ENB (Enbridge Inc.)

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