TFSA Investors: How to Build a $1 Million Portfolio in Today's Market

Description

When it comes to long-term savings, the Tax-Free Savings Account (TFSA) often gets overlooked. Due to the account's flexibility from tax-free withdrawals, the TFSA is an excellent choice for any type of short-term savings goal. But that doesn't mean it's not an option for long-term goals too, such as retirement.

The annual TFSA contribution limit has hovered around $5,000 since it was introduced in 2009. In 2022, the limit is $6,000, the same as it has been since 2019. As of today, the total TFSA contribution limit for anyone 18 years or older in 2009 is $81,500.

At a savings rate of $5,000 a year, building a nest egg of $1 million in a TFSA may not seem feasible. But thanks to compound interest and tax-free capital gains, surpassing a gain of $1 million is certainly not out of reach for TFSA investors with time on their side.

Building a million-dollar TFSA portfolio

First off, any unused contributions from previous years can be carried forward. So, there's no need to worry if you're behind on your TFSA savings.

If you're looking to benefit from the magic of compound interest, you're going to need to invest in something that provides a meaningful return. You're also going to need a few decades of time before withdrawing the funds.

To better understand how a TFSA could be used as a retirement savings account, let's look at an example.

Let's assume someone has been maxing out their TFSA since 2009 with cash. Cash won't do much good in terms of a return. Instead, let's invest the maxed-out TFSA of $81,500 in a broad market index fund. From that index fund, we can expect to earn an annual return of 8% when averaged out over the long term.

At an annual return of 8%, it would take just under 35 years to grow that initial investment of $81,500 into $1 million. And that doesn't even require contributions along that way. If an additional $200 was invested per month along the way, the TFSA would then be worth close to $1.4 million.

And best of all, that entire portfolio can be withdrawn completely tax free.

How to retire in fewer than 30 years

The key number in the example we just looked at is the annual return rate. If that annual return increased by just 2%, a $1 million portfolio would be achieved six years faster.

One way to increase your average annual return is through investing in individual stocks. There's absolutely nothing wrong with sticking to boring but dependable index funds. But some investors are looking to take on the challenge of outperforming the market.

If that's the case for you, **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM) is a perfect stock to start with.

The $100 billion asset management company will take care of diversification for you. It may not be an index fund, but it sure can provide an investment portfolio with the diversification it needs.

And despite being as diversified as it is, Brookfield Asset Management has had no problem outperforming the Canadian stock market in recent shares. Over the past 10 years, shares have returned close to 350%. That's good enough for an average annual return of just about 15%.

At an annual return of 15%, it would take an investment of $81,500 fewer than 20 years to grow into $1 million — or 15 years faster than if it were invested in a fund returning only 8% a year.

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