



How to Become a TFSA Millionaire in 20 Years or Less

Description

The [Tax-Free Savings Account](#) (TFSA) is the perfect registered account to create and grow long-term wealth. Any Canadian investment (a stock, bond, mutual fund, index fund, or exchange-traded fund) placed in the TFSA can earn capital gains, interest, and/or dividends with no tax reporting or tax liability.

Inside a TFSA, you get to keep *all* the returns! Even if you eventually withdraw your capital from the TFSA, there is no reporting and no tax owed! It is truly one of the best gifts the Canadian government has given to its citizens.

Not enough people use the TFSA to *build* wealth

Few Canadians use the account appropriately. Many banks advertise “high-interest” TFSAs. They generally mean interest between 1% and 2%. Often these rates are promotional and only for a short period. If held for the long run, these accounts are actually losing buying power, especially when considering today’s high inflation rate!

If you want to use your TFSA to become wealthy, you must invest. Fortunately, stocks are a great vehicle. In fact, if you have a very long time horizon (20 years or more) you could utilize your TFSA to become a millionaire. Here is how.

How to become a TFSA millionaire in 20 years or less

If you were 18 years or older and a Canadian resident in 2009, you can contribute a grand total of \$81,500 into your TFSA today. You could then put that money into a basket of high-quality, long-term compounding Canadian stocks.

The [Canada Revenue Agency](#) will raise the TFSA contribution by about \$6,000 a year. That means averaged over a year, you could contribute about \$500 a month (a reasonable amount to save).

If you could capture an average annual rate of return of 12% (aggressive, but not impossible) on your

capital, your TFSA could compound to be worth over \$1.2 million in only 20 years.

It will take discipline, and it will take patience, but it is possible to become a millionaire through your TFSA. If you are looking for a stock idea that could help you get there, you might want to consider **Constellation Software** ([TSX:CSU](#)).

Constellation Software: A millionaire-making stock

It is the ultimate TFSA stock. For the past 10 years, it has compounded annual returns at an incredible 38% rate! If you put just \$10,000 into this stock 15 years ago, it would be worth \$816,000 today. This stock has made many Canadian investors millionaires already.

Constellation acquires vertical market software (VMS) businesses around the world. It has already added about 700 businesses to its portfolio. It yields their stable cash flows and then reinvests it into new software businesses.

Last year, it deployed its [largest amount of capital ever](#) (around \$1.3 billion). This year, it acquired its largest VMS business ever. New records demonstrate that this company is still looking to accrete attractive returns for shareholders.

Given its \$41 billion market cap, the law of large numbers says its rate of return will decline. If so, no problem. Even just half its past rate of return (around 19%) would be a very attractive opportunity to compound over the long term.

The Foolish bottom line

The point is, find stocks in high-quality businesses like Constellation. Buy them in your TFSA and hold them for very long periods of time. Let the companies compound your wealth for you, and you could be a millionaire soon than you ever expected.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

PARTNER-FEEDS

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2. Koyfin
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