Low-Income Earners: How to Create a TFSA Portfolio From $0

Description

One of the things I love about the Motley Fool is its inclusivity. When I first started reading it on a regular basis, I was in an entirely different place than I am now. I was making a low-income wage at a job I didn't enjoy and was about to give birth to my first child.

So, I turned to Motley Fool for advice. And it was the greatest thing I ever did. That's because, rather than make you feel like an outsider, it provided information in a way that I could understand. And I wanted to do the same for others.

Today, I want to help people who may be like me back in 2018, who need help just getting started. If that's you, then even if you have just $0 in savings today, we can get you on the path to a strong portfolio.

First, start saving

If you have absolutely no savings, I'm not going to assume you can suddenly afford to put aside a couple hundred dollars per month — heck, even per year. Instead, I want to make this as stress free as possible and give you a very easy target of just $10 a month.

Just $10. That's $120 per year. Granted, that's not much. But you know what it's more than? Zero. So, already, you're improving your financial position. Don't stop there, however. If you're looking to create a strong portfolio, you'll need a place to put that cash. And I would recommend a Tax-Free Savings Account (TFSA).

There's a reason I'd recommend this over a Registered Retirement Savings Plan (RRSP). You'll be taxed if you suddenly need the cash badly from an RRSP. A TFSA allows you to take it out whenever you need it should you come across a financial setback. Just make sure you follow the rules and don't go over your contribution limit for the year.

Next, start investing

Again, if you don't have all that much to save in your TFSA, you don't have that much risk. So, I would, in the very beginning, go with something very low risk that provides a high dividend. You can therefore look forward to steady, if low, long-term gains. Plus, you can use the high dividend to reinvest in the stock. So, you're already creating more wealth by just investing in the first place.

Right now, I would consider **Canadian Utilities** (TSX:CU) as a strong option for your TFSA. The company is the only Dividend King on the **TSX** today. That means it's increased its dividend every year for the last 50 years! That also means you have 50 years of history to look back on to see the company's strong performance.

Create a long-term portfolio

I wouldn't recommend keeping all your eggs in one basket for life. But for the sake of this example, and for just starting out with only $120 per year, let's see what that could get you if you consistently put that aside.

Every month, you put that $10 in your TFSA. Then once a year, when you reach that $120, you can reinvest that back into Canadian Utilities, or you could choose to do so earlier if there's a dip in the share price. You'll also reinvest your dividends as well.

If you were to do this, you would lock in a 4.5% dividend yield today. The dividend has grown at a compound annual growth rate (CAGR) of 7.2% in the last decade, with shares growing at a CAGR of 5.2% in the last 20 years.

Bottom line

If you did all this, your portfolio could be worth $115,755.53 based on this past performance after 40 years. You won't be a millionaire, but you haven't broken the bank either when it comes to saving in your TFSA. You were consistent, steady, and invested in a strong company. And that is far better than $0 in savings.

CATEGORY

1. Investing
2. Stocks for Beginners

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PARTNER-FEEDS

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alegatewolfe