TFSA Investors: How to Turn Your $10,000 TFSA Into $100,000

Description

Short-term investors may not want anything to do with today's volatile market conditions. But long-term investors would be wise to take advantage of the rare discounts we're seeing on the **TSX** today.

As long as you've got the luxury of having time on your side, there's no reason to be on the sidelines right now.

Investing within a TFSA

When it comes to long-term savings, the Tax-Free Savings Account (TFSA) is not always the first account that comes to mind. More often than not, Canadians associate the Registered Retirement Savings Plan (RRSP) with long-term savings goals.

Both accounts can be viable long-term savings vehicles. But as someone with decades until retirement, if I had to pick which of the two to max out first, there's no question it would be the TFSA.

One key differentiator between the TFSA and RRSP is that gains within a TFSA are not taxed, ever. Within an RRSP, capital gains can grow tax-free year after year. But when it comes time to withdraw those funds, you'll be required to pay tax.

How to turn $10,000 into $100,000

You'll need a growing investment and time to turn $10,000 into $100,000. I'll break down how it may be easier than you think. The hard put will be coming up with the initial $10,000 investment. Once you have that, the rest is easy, as long as you're willing to be patient.

Let's first assume that you're investing that $10,000 into a broad market index fund, growing at an average annual rate of 8%. At that rate, it would take 30 years for your initial investment to grow into $100,000.

Instead, let's say we invest that $10,000 into an investment with higher growth potential, such as an individual stock.

Investing in individual TSX stocks

Brookfield Renewable Partners (TSX:BEP.UN)(NYSE:BEP) is a leading Canadian energy provider, specializing in renewable energy. The reason why I'm using this TSX stock as my example is due to its long-term growth potential. The demand for renewable energy is only rising, which is why I'm already a long-term shareholder of the company.

Over the past decade, Brookfield Renewable Partners has grown at a compounded annual growth rate (CAGR) of 11%. That growth is increasing, though. Over the past five years, the CAGR was up to 13%.

Let's assume in the coming five years, the CAGR continues to increase and levels out at 15% for the foreseeable future. At a growth rate like that, it would take fewer than 20 years for a tax-free investment of $10,000 to grow into $100,000.

But if you have the time and can afford to let your investment sit for 30 years, that $10,000 would be worth more than $650,000. The magic of compound interest is sometimes hard to fathom. Once you look at that example, it becomes clear how much of an impact the annual rate can have on long-term investments.

Best of all, if it's sitting in a TFSA, there's absolutely no tax at all that needs to be paid on those massive gains.

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