4 Steps to Turn Your $10,000 TFSA Into $100,000

Description

The usual advice of financial experts if you're building a nest egg for retirement is to start saving and investing early. A longer time horizon increases the chances of achieving long-term financial goals. One of the best tools available to save for the future in Canada is the Tax-Free Savings Account (TFSA).

Your TFSA is a one-of-a-kind account where income opportunities are endless. Unlike the Registered Retirement Savings Plan (RRSP), you can maintain a TFSA beyond age 71 or as long as you wish. However, its power as wealth builder depends entirely on how the accountholder utilizes it.

TFSA users can grow balances faster through the power of compounding. Also, turning a $10,000 TFSA into $100,000 is doable, but it entails methodical steps to get there.

1. Diligent, consistent savings

Apart from a longer time frame, TFSA users must sock away money diligently, regularly, and consistently. Revisit your budget and see where you can free up more cash. Cash is king, but a TFSA isn't the best place to store idle money. You need income-producing assets like bonds, mutual funds, GICs, ETFs, and dividend stocks in building wealth.

2. Work around the limit

The Canada Revenue Agency (CRA) sets annual limits, and, therefore, you must comply. Users who overcontribute pay 1% of the excess as penalty tax. For 2022, the TFSA limit is $6,000, so your beginning investment should be the same. Wait for the CRA to announce the new limit for next year.

You can add $4,000 starting January 1, 2023, to complete the $10,000 TFSA. If you have more funds, maximize the limit if it's over $4,000. Strictly speaking, your return on investment (annual) and time frame on $10,000 in capital must be 8% and 30 years, respectively, to hit $100,000.

3. Keep reinvesting

Many TFSA investors prefer dividend stocks because of higher returns. Most companies pay dividends every quarter, although there a few that pay monthly.

Dividend frequency is important, because it tells you how often you can reinvest the dividends. Commit to zero withdrawals to preserve the capital and grow tax-free earnings. While you won’t pay taxes on TFSA withdrawals, you can’t return the amount the same year you withdrew it.

4. Understand the risks

Blue-chip stocks are ideal anchors in a TFSA because of their strong financial positions and balance sheets. The dividend track records are also impeccable. Unfortunately, the dividend yields might not be to your liking or are less than 8%.

Diversified Royalty (TSX:DIV) is an interesting option today for its over-the-top 8.33% dividend. Moreover, the share price is only $2.63 (-2.48% year to date). The $326.23 million multi-royalty corporation owns the trademarks to six ongoing business concerns.

Mr. Lube is the largest company in the royalty pool, which also includes AIR MILES, Sutton, Oxford Learning Centre, Nurse Next Door, and Mr. Mikes. Despite inflationary pressures, Diversified Royalty reported a 28.1% increase in net income in Q1 2022 versus Q1 2021. Still, you must understand the risks in this low-priced, high-yield stock before investing.

Challenging environment

Rising inflation will prevent Canadians from saving more. Fortunately, unused contribution TFSA room carries over to the next year. Users have the opportunity to catch up and be on track with their financial goals.

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