TFSA Money: Here's How to Convert $6,000/Year Into $330,000

Description

The TFSA (Tax-Free Savings Account) is a solid avenue to create wealth in the long term. As your gains and dividend income are not taxed in a TFSA, it significantly enhances the overall returns. Further, with so many top-quality TSX stocks trading at a significant discount, now is the time to allocate your $6,000 annual contribution towards equity.

A systematic investment of $6,000/year in fast-growing TSX companies offering an annualized return of 30% could turn your investment into $330,000 in 10 years. Here are two such TSX stocks that have grown at a CAGR (compound annual growth rate — an average annualized rate of growth) of more than 30% in the last five years after accounting for the significant decline in their prices amid the recent selling in the market. Let's begin.

goeasy

goeasy (TSX:GSY), like most top growth stocks, has corrected significantly (about 39%) this year. Despite this decline, goeasy stock has gained nearly 340% in the five years, translating into an average annualized return of 34%. Besides appreciation in value, goeasy further enhanced its shareholders' returns by consistently paying regular dividends and growing it at a CAGR of 34.5% in the last eight years.

goeasy's revenue and earnings have increased at a double-digit rate over the past decade. Its annual revenue has grown at a CAGR of 15.9% between 2011 and 2021. Meanwhile, its adjusted net income grew at a CAGR of 29.1% during the same period.

goeasy's management expects the momentum in its business to sustain in the coming years on the back of higher loan volumes, new product launches, and channel expansion. Furthermore, increased penetration of secured loans, solid credit performance, and operating leverage will likely cushion its earnings.

goeasy expects its top line to increase at a double-digit rate through 2024. Moreover, its operating margin is expected to increase by 100 basis points annually during the same period. Its solid revenue and margin expansion will likely drive its earnings and dividend payments.

While its business continues to grow rapidly, its valuation appears attractive post the recent selloff. Its forward price/earnings (a key valuation ratio) multiple of 8.7 is well below the historical average, creating a solid entry point.

Shopify

Shopify (TSX:SHOP)(NYSE:SHOP) stock has dropped about 77% in one year. Despite this massive decline, Shopify has returned nearly 303% in five years. This translates into a CAGR of over 32%. Given the considerable decrease in its price, Shopify stock is trading at EV/sales (enterprise value/sales — a ratio that compares its total value relative to its revenue) of 6.6, which is at a six-year low.

Besides its tempting valuation, Shopify is poised to gain from the growing e-commerce penetration. Its continued investments in e-commerce infrastructure (fulfillment and payment offerings), expansion of existing products in new markets, the launch of new merchant services, and marketing and selling initiatives provide a solid platform for future growth.

Shopify recently acquired Deliverr to fortify its fulfillment. Moreover, Shopify is partnering with social media companies to bring high-growth sales and marketing channels for its merchants. Also, the increased penetration of Shopify Capital and a large addressable market bode well for growth.

Overall, its low valuation, multiple growth catalysts, and secular industry trends will likely lead to a steep recovery in its share price.

CATEGORY

1. Investing

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2. TSX:GSY (goeasy Ltd.)
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Date
2025/08/22
Date Created
2022/07/31
Author
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