Triple Your TFSA in Just 6 Years

Description

The Tax-Free Savings Account (TFSA) is a potent tool. Unfortunately, most Canadians are underutilizing this account. The average TFSA saver has set aside too little and focused on the wrong instruments. Changing your strategy could potentially double or even triple your TFSA assets within six years.

Here’s a closer look.

The typical TFSA

Nearly every taxpayer in Canada over the age of 18 is eligible for a TFSA. Unfortunately, some taxpayers never use this account. The ones who do put little money in the account. The total contribution room for most investors should be $81,500 in 2022. However, the average TFSA had only $32,234 in assets, according to data published by the Canada Revenue Agency.

These assets are also underperforming. Most TFSA savers deploy their funds in vanilla bank savings accounts. These accounts have earned paltry, low-single-digit returns since the program was introduced in 2009. Meanwhile, stocks and real estate have performed much better.

The TSX 60 Index has delivered a compounded annual growth rate of 9.1% over the past 10 years. Whereas Guaranteed Investment Certificates (GICs) and Term Deposits have delivered 0% to 5% in interest over the same period.

Even though interest rates have surged recently, I expect this disparity to continue. Stocks should deliver better returns than a traditional GIC over the next decade. That’s why pivoting your TFSA assets from savings accounts to stocks is essential.

Supercharged TFSA

You don’t need a special trick to supercharge your TFSA. All you need is some consistency and a timetested strategy.

The first step is to maximize your TFSA. That means fully utilizing the available contribution room you have. However, even if that isn't possible, you could still achieve incredible returns. By focusing on dividend-growth stocks and reinvesting dividends regularly you could multiply your TFSA relatively quickly.

For instance, a blue-chip dividend stock like **BCE** (TSX:BCE)(NYSE:BCE) could be an ideal target. The company dominates Canada's wireless and broadband market, which means its profits are secured for decades. Much of this profit is paid back to investors in the form of an annual dividend. At the moment, the stock pays a 5.7% dividend yield.

Investors can expect this dividend to steadily grow at 2-5% every year. Investors can also expect the government to expand the TFSA contribution room by an average of $6,000 every year.

Based on these assumptions, you could turn $81,500 into $157,461 within six years of consistent dividend reinvestment and annual $6,000 contributions. You could also turn the *average* TFSA of $32,234 into $87,576 over the same period with the same strategy.

Put simply, you could double or even triple your tax-free assets simply by focusing on high-yield, blue chip dividend stocks.

Bottom line

Most TFSA investors underperform the market. With the right strategy and a little discipline, you could double or triple your assets within six years.

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