2 Unstoppable Investments Everyone Needs in Their TFSA

Description

Your Tax-Free Savings Account (TFSA) is an excellent place to hold high-growth investments. Capital gains and dividends earned here are non-taxable, making it a great way to maximize your total returns.

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While reading up on all the great picks that the other Foolish writers have recommended, my suggestion is plopping your annual $6,000 TFSA contribution limit in an exchange-traded fund, or ETF.

Today, I'll be going over two high-growth, low-cost ETFs that track different U.S. stock market indexes. Both of these ETFs have provided high historical returns and make for great core holdings.

The S&P 500

The benchmark for the U.S. stock market is the S&P 500. This index tracks 502 blue-chip U.S. stocks and spans all 11 stock market sectors, with a concentration in technology, financials, and consumer cyclical stocks. It is extremely difficult for even professional investors to beat over the long run.

The easiest way to invest in the S&P 500 in Canada is via **Vanguard S&P 500 Index ETF** (TSX:VFV). VFV is Canada's most popular S&P 500 index fund and is currently down -17.90%. Investors brave enough to buy the dip could potentially snap up shares at a historically low price.

In terms of fees, VFV will cost you a management expense ratio (MER) of 0.09%. This is the annual percentage fee deducted from your investment. If you invested $10,000 in VFV, you could expect to pay around $9 in fees per year, which isn't much considering it holds 502 stocks!

The NASDAQ 100

If you're bullish on tech stocks, particularly mega-cap ones, the NASDAQ 100 might be a better buy. This index tracks the 101 largest companies listed on the NASDAQ exchange, excluding financial companies. Compared to the S&P 500, it has higher return potential but also greater volatility.

The most popular way for Canadian investors to buy the NASDAQ 100 is via **iShares NASDAQ 100 Index ETF** [(TSX:XQQ)](). Year to date, this ETF is down over 32% due to rising interest rates and high inflation hurting its growth stocks. The current correction could be an excellent entry point.

In terms of fees, XQQ will cost you a MER of 0.39%. This is much higher than VFV, so if your goal is to keep fees minimal, VFV might be preferable. If you invested $10,000 in XQQ, you could expect to pay around $39 in fees per year, which is still cheap compared to actively managed funds.

The Foolish takeaway

VFV or XQQ could be a great way to supercharge your TFSA's performance. In terms of historical performance, here's how both ETFs have returned since 2013:

Portfolio	Initial Balance	Final Balance	CAGR	Stdev	Best Year	Worst Year	Max. Drawdown
Vanguard S&P 500 Index ETF	$10,000	$40,549	15.44%	12.56%	40.91%	-16.95%	-18.55%
iShares NASDAQ 100 Index ETF (CAD-Hedged)	$10,000	$41,333	15.67%	17.52%	45.25%	-33.49%	-33.49%

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We see that XQQ pulled ahead strongly during the 2020-2021 bull market but fell harder in 2022 with greater volatility. Keep this in mind before you make your choice!

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:VFV (Vanguard S&P 500 Index ETF)
2. TSX:XQQ (iShares NASDAQ 100 Index ETF (CAD-Hedged))

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