TFSA Wealth: How to Turn $88,000 Into $1 Million for Retirement

Description

The Tax-Free Savings Account, or TFSA, is a registered Canadian account introduced in 2009. It provides Canadian residents with a tonne of flexibility and benefits, making it one of the most popular registered accounts in the country.

The cumulative contribution limit for the TFSA in 2023 will increase to $88,000. Investors can easily turn $88,000 into $1 million, allowing Canadians to accelerate their investment plans. Further, any returns from the TFSA are exempt from Canada Revenue Agency taxes, making it ideal for holding a variety of investments in this account.

Here's an investment strategy that will help investors increase their TFSA wealth from $88,000 to $1 million over time.

Invest in the S&P 500 and Nasdaq ETFs

A majority of your holdings should be allocated to exchange-traded funds (ETFs) that track indices such as the S&P 500 and Nasdaq Composite indices. These ETFs will provide investors the opportunity to generate steady returns, as you will gain exposure to some of the largest companies in the world.

An investment of $44,000 distributed equally between the S&P 500 and Nasdaq Composite ETFs 10 years back would be worth over $167,000 today. ETFs are an ideal investment vehicle that will diversify your portfolio and reduce overall risk. You will also gain exposure to several blue-chip stocks across multiple sectors.

Invest in quality growth stocks

In 2022, growth stocks have been pummeled due to a challenging macro-environment and the steep valuations of these companies. For example, **Shopify** (TSX:SHOP), which was among the fastest-growing companies on the TSX, surged by a staggering 6,200% between its initial public offering in

May 2015 and November 2021. Now SHOP stock is down 75% from all-time highs, allowing you to buy the dip.

Shopify is just an example of a quality, beaten-down growth stock that can be purchased at a discount right now. There are several other growth stocks, including **Amazon**, **The Trade Desk**, and **Tesla**, that are trading at lower multiples in the fourth quarter of 2022.

Invest in quality dividend stocks

Another way to create long-term wealth is to invest in a portfolio of blue-chip stocks, such as **Toronto-Dominion Bank** (TSX:TD). In the last 20 years, TD Bank has returned 1,120% to investors in dividend-adjusted gains, easily outpacing the broader markets. So, an investment of $20,000 in TD stock would be worth close to $245,000 today.

Investors need to identify similar stocks on the TSX that have strong financials and tasty dividend yields that can create a passive-income stream and deliver compounded gains over time.

For example, an investment of $20,000 in TD stock back in November 2002 would allow you to purchase 1,333 shares of the company. In the next 12 months, these shares would help shareholders generate $746 in dividends, translating to a yield of 3.73%.

In the last two decades, TD stock has increased these payouts at an annual rate of 9.7%. So, if you own 1,333 TD shares today, you can earn $4,745 in annual dividends, increasing your effective yield to almost 24%.

So, if you invest a total of $20,000 in 10 dividend stocks that offer a forward yield of 4%, your annual dividends in 2023 will be $800. These payouts can either be withdrawn or reinvested, which will compound your gains significantly over time.

Basically, investors need to purchase quality ETFs, growth stocks, and dividend stocks and hold them in their TFSA to build a compelling portfolio at a low cost.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SHOP (Shopify Inc.)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred

6. Quote Media
7. Sharewise
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