



How to Turn a \$500 TFSA or RRSP Into \$50,000

Description

The stock market is [volatile](#) and has its dips and highs. A 5-10% dip is a regular momentum due to seasonality. But a 20-30% drop occurs due to macroeconomic events and takes more time to recover. No one can time the market accurately. So, don't run behind 52-week highs and lows. Don't invest a significant amount in one go. The Canada Revenue Agency (CRA) has given you a Tax-Free Savings Account (TFSA) limit of \$6,500 for [2023](#). Make the most of the stock market volatility by investing smaller amounts on a monthly basis.

How to turn \$500 TFSA into \$50,000

The biggest mistake investors did in 2022 is invest their entire TFSA limit in the first two to three months. Many analysts expected a recovery for airlines and automotive stocks from the pandemic lows in 2022. But the Russia-Ukraine war and rising inflation forced the central banks to resort to aggressive rate hikes. It pushed the stock market into bear territory, creating an opportunity to buy strong stocks at cheap prices. The year 2020 also saw unpredictable stock market movements.

Markets are unpredictable to a certain extent. Small investments will leave you with TFSA cash to buy your favourite stocks at the dip. One strategy is to invest up to \$500 a month in stocks you choose. It will keep you disciplined and help you avoid overinvesting in a falling stock.

For instance, John invests \$500/month in one top stock while Amy invests her entire TFSA limit in 12 stocks at the start of the year. John is better positioned to buy stocks at an attractive price, as he gets the advantage of market volatility. A \$500 investment per month will increase your invested amount to \$6,000 by year-end. If you manage to build a portfolio that can generate compounded annual growth rate (CAGR) of 15% for the next 15 years, you can convert your TFSA to \$50,000.

Got \$500 in your TFSA? An ETF to buy in December

As we near the end of 2022, market expectations are a slowdown in the economy and the stock market in 2023. But there is always room for surprise. If you have \$500 left from the 2022 TFSA limit, you can

invest that money in an exchange-traded fund (ETF).

Technology ETF

The tech bubble burst in 2022 has left investors with heavy losses. All tech stocks, from giants like **Shopify** and **Amazon** to new entrants like **Nuvei**, lost more than 50% value. This crash was a correction, as the stimulus money had inflated their valuations, bringing a decade of growth in a year.

But the secular trends driving these [tech stocks](#) are here to stay. E-commerce adoption has increased, and more people are using payment platforms like Nuvei. As software companies, they have significant net cash positions. But this cash is funding their losses. A slowdown in economic growth could encourage individuals and companies to move towards efficient systems that can reduce costs. Technology platforms that can enhance efficiency and reduce cost could do well in a recession.

Instead of choosing a single tech stock, you can invest \$500 in **iShares S&P/TSX Capped Information Technology Index ETF** ([TSX:XIT](#)). The ETF has invested in 27 Canadian tech stocks, with 49% of holdings invested in **Constellation Software** and Shopify. The two stocks have delivered 22% and 14% CAGR, respectively, in the last five years, while the XIT ETF delivered a 17% CAGR. Historical performance does not guarantee future returns, but the ETF is down 31% year to date. If you buy in the current dip, you can lock in a recovery rally and get a 15% CAGR for the next five years.

The ETF gave a glimpse of a recovery rally. It surged over 17% in two months (between October 11 and December 9) as the TSX Composite Index recovered 10%.

Investing tip

No matter how little you invest, maintain discipline and spread your investments throughout the year. The market volatility will help you reduce your average cost in a bear market and enhance your upside.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)

PARTNER-FEEDS

1. Business Insider
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3. Koyfin
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Date

2025/07/21

Date Created

2022/12/09

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