



TFSA Investors: How to Build a Long-Term Investment Portfolio

Description

The Tax-Free Savings Account (TFSA) contribution limit for 2021 was recently confirmed to be \$6,000. For the second consecutive year, the yearly contribution limit has remained the same.

The TFSA limit in 2021 will be \$6,000, but the total contribution limit for Canadians aged 18 years or older in 2009 is now at \$75,500. Unused contributions are carried over from year to year.

Why invest in a TFSA?

As the name would suggest, the TFSA offers Canadians several tax benefits. Withdrawals can be made at any time and are completely tax-free. In addition to that, all dividends and capital gains generated by investments within a TFSA are not subject to be taxed.

Perhaps the most compelling selling point of a TFSA for [long-term investors](#) is the fact that capital gains do not count towards the contribution limit. In other words, a \$6,000 investment made in 2021 can grow to \$10,000 through capital growth, all of which is completely out of reach of the Canada Revenue Agency.

Building wealth in a TFSA

Due to capital gains not being taxed, you'll want to own investments in your TFSA with a decent amount of upside in growth. Over the long term, investing in equity can provide investors with serious growth, as it compounds on a yearly basis.

Exchange-traded funds (ETFs) are a great place for new investors to begin. ETFs can provide investors with instant diversification to their portfolios.

ETFs are one of the widest used tools for building long-term wealth. Top ETFs tracking full stock market indexes can range between earning 8-10% growth on an annual basis. Of course, there are many ETFs to choose from, so not all will earn that type of growth.

The U.S. stock market has largely outperformed the Canadian market over the past decade. If you're looking to invest in U.S. companies, the **Vanguard S&P 500 Index ETF** is a solid choice. It tracks the 500 largest public companies in the U.S. and has delivered growth of almost 70% over the past five years. That's good enough for an annual growth rate of close to 11%.

Investing in individual stocks in a TFSA

If you're looking to take a more hands-on approach in your investment portfolio, picking individual stocks might be more suited for you.

There's absolutely nothing wrong with own both ETFs and individual stocks. This strategy allows you to focus on sectors that you're more interested in. The ETF will provide diversification and a presence in sectors you're not looking to own individual stocks in.

Investing in individual stocks requires much more time and effort to manage a portfolio in comparison to simply buying an ETF. The reward is the potential of [earning market-beating growth](#).

I covered a top tech stock that's on my radar to add to my portfolio in 2021. The tech company has a long history of outperforming the Canadian stock market. And even though it has a solid track record of growth, it trades today at a reasonable price. Its valuation is nowhere near as high as some of the more popular high-flying tech stocks today.

Constellation Software

Constellation Software ([TSX:CSU](#)) is by nature in the business of developing software, but the company relies heavily on its aggressive acquisition strategy to drive growth.

The \$35 billion company aims to snatch up smaller-sized tech companies that often operate in very niche industries. Since 1995, Constellation Software has completed more than 500 acquisitions.

Organic growth may have slowed, but the successful acquisition strategy has led to serious growth for Constellation Software shareholders.

Over the past 10 years, Constellation Software's share price has grown more than 3,000%. Growth over the past five years may have slowed, but 200% growth has completely crushed the gains of 35% that the **S&P/TSX Composite Index** has returned.

What seals the deal for me is the valuation. High-flying Canadian tech stocks like **Lightspeed POS** and **Shopify** are trading at price-to-sale (P/S) ratios above 50 today. There's definitely a lot of growth to get excited about there, but those are some serious valuation levels.

Constellation Software has a proven track record of market-beating growth and still trades at a P/S ratio of below 10 today. It's no value stock — that's for sure. But investors can own a tech company with plenty of growth still left in the tank at a reasonable price.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. constellation software
2. CSU
3. CSU stock
4. growth stocks
5. tech stocks
6. TFSA
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TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
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