4 Big Mistakes to Avoid With Your TFSA

Description

Life is so busy that sometimes we forget to plan for the future. A tax-free savings account (TFSA) is a good tool to do that. However, there are four mistakes that Foolish investors should avoid.

Mistake 1: Not contributing to them

As I said earlier, life is busy. So, some people end up not contributing to it because there are other obligations. After paying for your needs, do yourself a favour and pay yourself first.

An easy way to pay yourself first is to contribute set amounts to a TFSA periodically, every month, or every three months, etc. Make paying yourself a need instead of a want.

Mistake 2: Not maximizing returns

Some people have opened TFSA accounts only to let it sit there or to earn interest from a high interest savings account. It’s true that interest rates are taxed at your marginal rate, but historically in the long term, investing in quality dividend stocks generates much better returns than any interest-paying vehicle.

Other than the Canadian banks, you can also consider buying and holding utilities in a TFSA. Utilities provide needed services, so their earnings are much more predictable than, say, miners such as **Barrick Gold Corp**. For example, **Fortis Inc.** (TSX:FTS) and **Canadian Utilities Limited** (TSX:CU) are two top Canadian companies that have paid the longest streak of growing dividends for over 40 years!

Mistake 3: Taking on too much risk

A friend of mine wanted to maximize returns in their TFSA for tax-free returns, so she bought some inverse ETF in there. Sure, she could win big, but she might lose big as well.

Because there's no way to write off your losses in a TFSA, I think it's better to invest in companies that generate stable earnings that you know for sure will become more profitable over time.

As I mentioned before, Canadian banks and utilities are great places to start. Another industry that earns stable earnings and cash flows is the pipelines, including **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP).

Mistake 4: Withdrawing from a TFSA when you're not supposed to

Have a goal in mind before investing in a TFSA. Are you saving for a big purchase or for retirement? If you're saving for the latter, you'd better not withdraw money from it because once you start, it likely won't be the only time.

If you withdraw from a TFSA, you're giving up the opportunity to compound tax free. That is huge, especially over a long period of time. If you have no more room left for the year, the amount that you withdraw cannot be contributed back into a TFSA until the next calendar year.

In conclusion

Investing in a TFSA is a great way to get ahead and put your future financial security in your own hands, but you must not abuse the power. Learn the ropes in investing in a non-registered account, and keep track on your successes and failures. Then once you're comfortable enough, do what works for you in a TFSA. I find that investing in quality dividend companies such as Fortis and Enbridge is a simple and logical way to start.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:TRP (Tc Energy)
4. TSX:ABX (Barrick Mining)
5. TSX:CU (Canadian Utilities Limited)
6. TSX:ENB (Enbridge Inc.)
7. TSX:FTS (Fortis Inc.)
8. TSX:TRP (TC Energy Corporation)

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