How Any Canadian 18 or Over Can Benefit From TFSAs

Description

If you just turned 18 and you are a Canadian, you have $10,000 of contribution room for your tax-free savings accounts, or TFSAs. Unlike registered retirement savings plans (RRSPs), a TFSA doesn't require filing a tax return to earn contribution room.

In fact, if you were at least 18 years old in 2009, you would have a total of $41,000 of contribution limit accumulated over the years:

Year	Contribution Limit
2009	$5,000
2010	$5,000
2011	$5,000
2012	$5,000
2013	$5,500
2014	$5,500
2015	$10,000

So, even if you are a university or college student and saved some money from your summer job, you can start benefiting from TFSA.

What's the best way to take advantage of TFSAs?

What you earn in TFSAs is not taxed at all. So, it makes sense to focus on growth. After all, in the long term, stocks outperform bonds, and dividend stocks outperform typical stocks. Most specifically, dividend-growth stocks outperform dividend stocks.

One can invest without taking excessive risk. People often associate investing in the stock market with gambling. But it's not. If you're investing in proven businesses that tend to pay dividends (and grow them over time), you're building wealth for yourself. That's entirely different than going to the casino to gamble.

Canadian banks' dividends are pretty solid. Even during the last recession in 2007-09, when the U.S. big banks slashed their dividends, the Canadian banks maintained theirs. Most of the Big Five Canadian banks yield at least 4.3% today. For example, start with **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS).

The top two Canadian stocks with the longest streaks of growing dividends for more than four decades are **Fortis Inc.** (TSX:FTS) and **Canadian Utilities Limited** (TSX:CU). They're not necessarily cheap though. Fortis is priced above a multiple of 19, while Canadian Utilities is priced around a multiple of 18.

However, if you have many years ahead of you for your investment to grow, you can focus on consistently investing periodically in these quality stocks.

The longer you keep investing in quality dividend stocks, the more time you give for the company to grow. In your accumulation phase, you can use that income to invest back into quality companies to speed up the compounding effect.

Don't want to be a stock picker? Have too little funds available to invest? You can invest over time in quality exchange-traded funds (ETFs), which typically follow the movement of indices, and they cost less than mutual funds. For example, Bank of Montreal offers a BMO Canadian Dividend ETF with top holdings such as **Telus Corporation** and **Canadian Imperial Bank of Commerce**.

Don't over-contribute

Don't over-contribute to TFSAs. There are penalties.

Let's assume you've used up your contribution room of $41,000, but you withdrew $5,000 in June 2015. Remember, you cannot recontribute that $5,000 until 2016. In other words, in 2016 you'll have $15,000 of contribution room (which includes the withdrawal from the previous year and the new contribution limit for the year). This assumes the government will continue to give us the $10,000 contribution limit for each year going forward.

In conclusion

Don't take unnecessary risks in TFSAs. Losses in them cannot be written off. Buy proven dividend-growth stocks and watch them compound over time. Alternatively, buy dividend ETFs that hold such stocks. Invest consistently over time, and watch your investments and income grow steadily, but surely.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
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3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CU (Canadian Utilities Limited)
5. TSX:FTS (Fortis Inc.)
6. TSX:RY (Royal Bank of Canada)

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kayng