# How to Improve Returns in Your TFSA

## Description

Interest you receive is taxed at your marginal tax rate. So, you might have received advice to hold interest-producing investments in your tax-free savings account (TFSA).

However, historically, over the long term, the stock market has generated higher returns than guaranteed investment certificates and bonds.



Specifically, stocks have generally returned 9.8% per year with inflation applied. So, to improve the returns of your TFSA, you should consider investing in stocks.

There are several key points investors should keep in mind:

- Buying a stock is owning a piece of a business
- Even the best company should not be bought at any price
- It’s best to apply your stock-investing success in non-registered accounts to your TFSAs

**Buy quality companies**

True investors view buying shares in a stock as owning a part of a business. The simplest way to identify quality businesses is locating dividend-growth companies that are profitable in all kinds of business cycles.

These companies’ products and services are needed no matter how the economy is doing. Since they generate a stable, growing cash flow, they are able to reward shareholders with growing dividends.

For example, **Fortis Inc.** (TSX:FTS) is primarily a regulated utility which has paid a growing dividend for more than 40 years. It consists of nine utilities with about $29 billion of assets that serve 3.2 million electric or gas customers.

Fortis has had success acquiring and integrating utilities. It has announced it will acquire **ITC Holdings** , which will diversify Fortis's business and reduce its risk as an investment. The acquisition is expected to close late this year, but it's still subject to regulatory approvals from multiple parties.

Since Fortis's payout ratio is 71% of its 2015 earnings and its earnings should continue to grow this year, Fortis's dividend is reliable. In fact, Fortis is so confident about its growth in the next few years that it targets to hike its dividend by 6% per year on average through 2020.

**Valuation**

Even though Fortis is a top dividend-growth company, investors shouldn't pay too much for it. If you do, the business can do well, but the stock can perform poorly.

At $39.80 per share, Fortis trades at 18.6 times its earnings and yields almost 3.8%. The utility is close to fully valued today and has little margin of safety. If it dips to $37.50 per share, investors can grab it for a 4% yield.

Fortis is a great choice for income investors looking for a solid dividend and a stable business.

**Previous investing experience**



TFSAs are great for earning tax-free dividend income and capital gains. However, if any losses occur in TFSAs, you cannot use it to offset capital gains like you can in non-registered accounts.

So, it's best to have experience investing in non-registered accounts before applying that success to investing in TFSAs.

**Conclusion**

By buying quality companies at reasonable to discounted valuations, you can improve your returns in your TFSAs. Remember to test out your strategies in non-registered accounts before applying your success in TFSAs to avoid losses.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:FTS (Fortis Inc.)

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