

Why a TFSA Checkup Is Important

Description

Although most Canadians are aware of how often they must see the doctor for their annual checkup, the name of the visit still includes the word *annual* to ensure we are reminded to see the doctor regularly.

In the world of investing, most people do not have a date on the calendar to ensure a thorough review is being done on their investment portfolio. Instead, if something major happens, or if we need to make a lump sum contribution to either a Tax-Free Savings Account (TFSA) or Retirement Savings Plan (RSP), we may take an extra five minutes to review the portfolio and think about making changes. To put it bluntly, Canadians do not treat their investments as a priority and do not expend the time and energy required to stay on top of things.

As we are more than one-third of the way into the year and approaching the halfway mark (the end of June), investors may want to take a good, hard look at the stocks they are holding to ensure the allocations are still within appropriate proportions.

Let's take shares of **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) as an example. Investors who'd put 10% of their portfolios into the security one year ago have seen a return in excess of 250%. The year-to-date return is above 120%. Further, to make the example easier to follow, we will assume the remainder of the portfolio did not make or lose money throughout the year.

If we assume \$10,000 out of a \$100,000 portfolio was invested into Shopify, the shares would now be worth close to \$25,000, and the portfolio would have a total value close to \$115,000. The allocation to Shopify, which began at 10%, has now reached 21.7%, which brings the risk of concentration into the equation.

For many Canadian investors who are proponents of the buy-and-hold philosophy, this would not be the first time they've experienced this problem. For many years, shares of Canada's largest banks compounded as a very high rate of return in the portfolios of many investors needed re-balancing.

The warning signals for investors come not when the concentration risk is beginning to appear; instead, the warning signs are confirmed as the stock price declines.

Let's look at the share prices of Canada's big banks over the past six months. The performance, which had been stellar, has started to drag. Using **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) as an example, shares touched a high price in excess of \$104 in early March and have since fallen to approximately \$94 per share.

While fluctuations in equity-based investments are to be expected, investors still need to keep the allocation of each investment in proper proportion to avoid larger losses when a security declines in value.

CATEGORY

1. Bank Stocks
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TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:SHOP (Shopify Inc.)
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4. TSX:SHOP (Shopify Inc.)

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