



## How to Start Investing Inside Your TFSA

### Description

For new investors coming into the marketplace for the first time, things can seem very daunting. There are a number of different options regarding account types and the types of stock that will be added into those accounts.

For most investors, there are a number of suitable stocks available for purchase, but before we get there, let's consider why many first-time investors may want to invest through a Tax-Free Savings Account (TFSA) instead of a Retirement Savings Plan (RSP) account or non registered account.

First, any gains made in a non-registered account are subject to taxation, thereby reducing the net after-tax rate of return. Money invested inside a TFSA has the possibility to grow on a tax-free basis at all times. Second, the money invested inside an RSP account is, in almost all circumstances, stuck inside the account until retirement. Unless a principal residence is being purchased for the first time, then RSP money will not be withdrawn from the account without the owner being forced to pay taxes.

For those not in the know, RSP accounts allow investors to make contributions on a pre-tax basis, oftentimes receiving a tax refund, until the time of retirement, when the withdrawals are taxed. The assumption is that the taxpayer will be in a lower tax bracket at the time of retirement.

For investors selecting a TFSA to make their first investment, it is important to realize that there are limits to the amount of money each person is allowed to contribute or withdraw from the account in any given year. The advantage to using a TFSA over an RSP is that there are no tax consequences for any contributions or withdrawals made. Additionally, all returns made inside the account are completely tax free.

In consideration of the securities new investors may want to buy, it is critical to find a company that brings a certain level of comfort to the investor in addition to being considered more conservative. As time goes on and multiple stocks are added to the portfolio, it becomes easier to invest in a security with more risk. Diversification will allow the larger fluctuations of the one security to be minimized across a larger portfolio.

Currently of interest to new investors are shares of **Great-West Lifeco Inc.** ([TSX:GWO](#)), which is one

of Canada's leading insurance companies. The company currently pays investors a dividend yield of more than 4%, and given the increase in interest rates, the company may be in a fantastic position to increase the bottom line. Investors need to remember that for insurance companies, which bring in large sums of money, the higher-risk free rate of return will lead to a larger return on this investment.

Great-West is a defensive company with a long-term business plan. New investors may be best served starting their investing careers with shares of Great-West.

## CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

## TICKERS GLOBAL

1. TSX:GWO (Great-West Lifeco Inc.)

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