Investing Inside a TFSA vs. an RSP

Description

For investors who currently have assets inside Tax-Free Savings Accounts (TFSAs) and Retirement Savings Plans (RSPs), there can sometimes be a challenge when figuring out which stocks to put into each account. Although the approach adopted by most investors is to use whatever cash is available, that may not be the best way to go.

Since TFSA accounts were not available prior to 2009, many have focused on maximizing the benefits from their RSPs. As there are fewer tax considerations to take into account when dealing with a TFSA, investors need to keep this specific point in mind when deploying the money inside each account.

When an investment is made in a more aggressive stock or sector, there could be a substantial amount of volatility, which leads to a much longer investment time frame. An excellent example of this is **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP), which remains an emerging internet company. In spite of turning in positive cash flows over the past two full fiscal years, the road that this company needs to travel to become a value company (or even profitable) may easily take a decade or more. The result is that this investment could be put into an RSP instead of a TFSA, as there will be a much greater amount of volatility.

The reason for taking such an action is to avoid selling out of this long-term holding should money be needed in an emergency (which would be drawn from a TFSA prior to being drawn from an RSP).

What do we put in a TFSA?

Because the TFSA is the first account to be liquidated in case of emergency, investors need to plan accordingly by putting the defensive or dividend-paying stocks in their TFSAs. One of the best stocks to include is none other than **BCE Inc.** (TSX:BCE)(NYSE:BCE), which currently provides wireless services to consumers and businesses alike.

Quickly becoming one of the most defensive names available (as people need their cell phones), the company carries a very low beta and a dividend yield of almost 5%. As revenues (which are very sticky) have increased at a rate of 2.1% on an annual basis since fiscal 2013, while net earnings have increased at a rate of 12.9% over the same period, investors don’t necessarily need to experience a high rate of top-line growth to make an above-average return. What a great name to add to the TFSA!

What else can we add to the RSP account?

Another fantastic idea might be **Chipotle Mexican Grill, Inc.** (NYSE:CMG), which, at a current price of US$327, currently offers investors the potential for long-term growth at what many would argue is a very reasonable price. Although the argument has been made that the company needs to be repriced as a value investment, there remains a substantial amount of potential for investors willing to hold this name over a long period of time.

CATEGORY

1. Investing

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1. Editor's Choice

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2. NYSE:CMG (Chipotle Mexican Grill, Inc.)
3. NYSE:SHOP (Shopify Inc.)
4. TSX:BCE (BCE Inc.)
5. TSX:SHOP (Shopify Inc.)

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Author
ryangoldsman