Why it's Actually Riskier for Young TFSA Investors to Avoid Owning Risky Growth Stocks Over the Long Term

Description

I firmly believe that young investors should be taking a raincheck when it comes to conservative securities like bonds or conservative dividend stocks, which are better suited for their parents.

While defensive stocks are an essential nutrient in any diversified portfolio, taking on an overweight position in such low-growth names as a young investor won't produce optimal returns over the course of the decades. Given that the millennial generation is poised to live longer than prior generations, they're going to need a lot more money than they think in order to retire comfortably.

Sure, market crashes are scary, and riskier names leave you exposed to a higher magnitude of losses, but as a young investor, you've got to remember that time on your side. With this in mind, a young investor should be making the most out of this time advantage by taking risks on higher growth names that have the potential to deliver profoundly higher returns over the long haul, crashes included! And if your growth investment blows up come the next bear market, you've got many decades worth of working years in order to make up for any losses. Simply put, for young investors with a long-term time horizon, the risk/reward trade-off for high-growth names is far more attractive than that of defensive stalwarts.

Of course, many millennials remain wary of the stock market after the two market meltdowns in the 2000s. While it may seem prudent to invest like a retiree within your TFSA, doing would actually be the more reckless decision when you weigh the opportunity costs of growth investing versus defensive investing over the extremely long-term.

For example, consider how a defensive stock like **Canadian Utilities Ltd.** (TSX:CU) versus a red-hot growth name like **Stars Group Inc.** (TSX:TSGI)(NASDAQ:TSG). In a rising interest rate environment, you'd be hard-pressed to double your money with a holding like Canadian Utilities over the next five or even 10 years!

If you invest in a high-growth stock like Stars Group instead, given the company's high growth ceiling and longer-term tailwinds, you're more likely to end up more than doubling your investment over the next 10 years, even if the broader markets were to correct tomorrow!

The power of tax-free compounding is difficult to fathom for most beginners, but with high-growth names in your portfolio, over the course of many decades, you'll be able to optimize the effects and retire a lot sooner and wealthier than you may have originally thought!

If you're worried about a looming recession, there's no shame in adjusting the positions within your portfolio in order to take on an "all-weather" strategy. One must avoid making drastic moves like going all-in on defensive stocks in order to time the market, however.

Thus, young investors should ensure that they have a percentage of their principal devoted to higher-growth names in order to get the most out of any market environment.

Foolish takeaway

It's a common fallacy among young investors that low-risk stocks like Canadian Utilities are a "safe" way to invest over the long-term. While doing so will definitely pad volatility and result in better results in declining markets, the returns from growth stocks will dwarf that of their "lower-risk" counterparts over the course of many decades.

Young investors have time on their side, and in order to leverage this often-overlooked advantage to its fullest, one ought to embrace higher-growth names in spite of the fact that they're riskier and harder to hold over the short-term.

Stay hungry. Stay Foolish.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/24
Date Created
2018/06/28

Author
joefrenette