



What Horrid Ways to Invest in a TFSA!

Description

The top contestants for a tax-free savings account (TFSA) contest amassed about \$70,000-\$500,000 by early 2015. (Up to \$41,000 could have been their seed money from the contributions they've made since 2009.)

Some of their investment strategies include betting big on penny stocks, high-growth nano-cap stocks, and concentrating in one stock at a time. These strategies can be super lucrative, but they're also super risky.

Penny stocks

The winning couple that accumulated more than \$500,000 each in their TFSAs actually placed their bet on *one single* penny stock, which appreciated from \$0.10 to \$6.50 per share (i.e., 65 times the original investment!).

They felt really good about the idea, and at the time they believed the stock would go to \$25. However, the stock hasn't gone past \$7 yet and actually sits at \$0.60 as of writing.

To be fair though, if the couple still owned the stock, they would still be sitting on gains of five times their original investment. They also recognized the risk they were taken and had the goal of diversifying their TFSAs into income-producing stocks and mutual funds.

Personally, I would never bet big on penny stocks. I see them as speculative investments that are closer to gambling. Earlier this year, I made a tiny bet on **Katanga Mining** (TSX:KAT) in my TFSA and booked a roughly 50% gain in about three weeks.

My target exit price was actually higher than what I sold it for, but was I glad I wasn't greedy — if I had held on, I would be sitting on a double-digit loss right now. My experience in reading technical charts and luck also had a lot to do with the favourable outcome. I was able to be non-emotional on the trade because I only made a small bet.



High-growth nano-cap stocks

There's no doubt that nano-caps (companies with market caps of less than \$50 million) are underfollowed, and, as a result, there are many more [undervalued gems](#) to be discovered versus the large-cap and mid-cap spaces. However, like penny stocks, if you bet on the wrong ones, you can lose your shirt.

Concentrate on one stock at a time

If you're concentrating on one stock at a time, you have to be very confident about your idea. Otherwise, if the stock turns south, you'll have to make the difficult decision of buying, holding, or selling under a considerable amount of stress.

Investor takeaway

It's important to point out that some of the winners were highly educated and experienced in the finance world with financial advisors and an accountant in the mix; as such, their strategies may be difficult to execute for average investors who may not have enough expertise or time to do thorough research.

Buying penny stocks and nano-cap stocks, or concentrating on one stock at a time can be super lucrative if you make the right bets. However, making the wrong bets will lead to huge losses. So, these strategies are best avoided by most investors and especially conservative ones.

If you do decide to make some speculative bets, make sure they cumulatively don't exceed, say, 5-10% of your portfolio. Instead, focus on the Foolish way to invest — average in to [businesses with great management](#) that treat shareholders well. Over the long term, you should be very pleased with your returns.

CATEGORY

1. Investing
2. Metals and Mining Stocks

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/09/12

Date Created

2018/08/19

Author

kayng

default watermark

default watermark