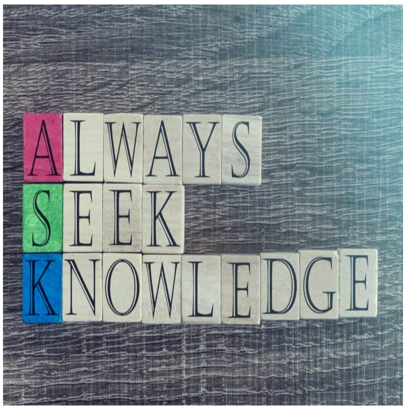

3 Strategies for TFSA Investing

Description

Many Canadian investors under utilize their TFSAs. It isn't uncommon to hear of people who have either not contributed to their accounts or have oodles of unused contribution room just waiting to be invested. But for many Canadians, these accounts should be a core part of their investment strategy. However, in order to optimize your TFSA, you should have an idea of what exactly it is you want to achieve. The strategy you choose should be appropriate for your stage of life and lifestyle.

Steady cash flow

Investing in a TFSA can provide cash flow as well as allow for the flexibility of being able to withdraw any earnings tax-free at any point. Best of all, the money can be put back in the following year. Steady, dividend-paying stocks like **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Telus Inc.** (TSX:T)(NYSE:TU) might not offer mind-popping returns, but their dividends will grow and the share price should appreciate over time.

Furthermore, these stocks retain their value quite well and act as a buffer in times of stress due to their perceived safety. This makes these companies perfect for retirees needing cash flow, students just starting out, and lower-income earners who want to maximize their returns while retaining a degree of safety.

Swing for the fences

Some people like to go for the big money. A TFSA is a handy tool for making big returns tax-free. Marijuana stocks like **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC) and tech companies such as **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) have made people some big money over the past couple of years. Imagine if you could keep all of that money tax-free! TFSA accounts are perfect for people looking to make the big score.

Individuals who earn significant amounts of money, say $100,000 or more, may want to take a wild swing. Younger people with time on their side may also have a higher tolerance for risk. If you're in this camp, a TFSA can be a good place to swing for the fences and try to get a home run on a stock. The biggest downside to taking a big risk is the fact that the money list can't be written off as a capital loss and you lose the contribution room for the future.

The hybrid strategy

Of course, you don't have to stick to either one of these strategies in isolation. One interesting way to both conserve your capital and take the occasional home run swing is to buy dividend-paying stocks with your contribution room and use the dividends, or a portion of the dividends, to buy the growth stocks.

Your capital will be somewhat preserved and you will not feel quite so bad for losing the money from the dividends because of a beautiful mental bias known as mental accounting. Middle-income earners or people with families would benefit from this strategy because they have the chance to build wealth slowly while throwing the occasional Hail Mary for a big return.

No matter what, use the TFSA

Many people have unutilized TFSA room. This is a travesty, as the TFSA is probably the most versatile wealth-building tool we have. The contribution limit is not income-dependent, and you can withdraw funds tax-free if you have an emergency or want to buy a new back scratcher. Know yourself, your personal financial situation, and your cash needs — and coose a strategy that works best for you.

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