Millennials: 3 Stupid, but Common TFSA Mistakes That Could Hurt Your Pocketbook

Description

Many millennials are guilty of seemingly subtle TFSA portfolio management crimes that most folks overlooked. I'm sure you've heard that younger investors should be able to tolerate more risk when it comes to their investments. This doesn't mean starting a YOLO (you only live once) or FOMO (fear of missing out) portfolio, however, as such speculative approaches take on excessive amounts of risk that isn't appropriate for most risk-averse investors.

You see, it's all about the risk-reward trade-off and gaining a better understanding of your long-term investment goals. So, if you're a young investor with a TFSA with the goal of becoming a millionaire by the age of 50 (like many other millennials buying into the FIRE [financially independent, retire early] movement), you may want to listen closely, as you could be severely stunting your long-term investment goal without even realizing it.

Here are the mistakes:

Being too conservative

Millennials have been dealt a tough hand, with the eldest of millennials being served up a one-two punch to the gut with the dot-com bust and the financial crisis just years after. As you'd imagine, beginner investors who got started in the early 2000s lost a considerable amount of wealth due to rookie mistakes, and after returning with a new game plan, these same folks got clobbered by the 2007-08 recession that spared nobody.

With the disasters of the 2000s fresh in the minds of millennials, it's not a mystery as to why many investors in the cohort are overly conservative or distrusting of the financial markets. As such, these investors naturally steer toward "risk-free," unrewarding assets like debt securities (bonds), or other fixed-income products like GICs or annuities.

While the guaranteed 2% or 3% return you'll get from such securities may seem worthwhile, millennials are surrendering many decades of compounding from equities, which have historically been the best asset class to be in over the long term. With recessions, depressions, and slowdowns thrown into the mix, equities have posted 9-10% returns annually depending on who you ask. And with dividend reinvestment and tax-free compounding within a TFSA over the long term, that additional return, while seemingly small in the short term, makes all the difference throughout decades.

A portfolio overweighted in bonds and a portfolio composed mainly of equities could be the difference between a comfortable, early retirement and having to put your nose to the grindstone in your late 60s.

Not having enough dry powder on the sidelines

Even if you're overweight equities, you still need to realize that more crashes will be in the cards between now and your expected retirement date. As a millennial, you could realistically face five or more big market drops in your investment career. Thus, it's important to be ready for whatever Mr. Market throws at you with cash on the sidelines to buy more shares as they become cheaper.

When the markets crash, you don't need to be picky as a well-known dividend darling like **Scotiabank** (TSX:BNS)(NYSE:BNS) would be sufficient enough to profit profoundly from a potential rebound, but what you do need is cold hard cash. Without it, all you can do is observe as the fire-sale comes and goes, and while that's not a horrible thing if you don't sell your stocks, you will be kicking yourself over not having enough to capitalize on sales that you'll be unlikely to see for many years.

Di-worification

Diversification is the only free lunch in investing, a wise person once said. While more holdings in your portfolio can reduce the degree of unsystematic risk you'll take on, the effects of diversification begin to wear off quickly after a certain point, and if you've got tons of stocks you can no longer keep up with, your returns could suffer from *di*-worification, a term coined by the legendary investor Peter Lynch.

In many cases, the stocks you own may be more diversified than you think.

For example, Scotiabank is a Canadian financial, but it's also a play on international markets with its Latin American exposure and a potential fintech play with its promising tech-driven investments. While you could own more than one bank, you'd be better off with one or two due to the overlap.

Stay hungry. Stay Foolish.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/07/07
Date Created
2019/02/01
Author
joefrenette