Millennials: These Huge Mistakes Could Stop You Amassing Great TFSA Wealth

Description

One of the biggest mistakes that a millennial investor could make is not getting started with investing soon enough. And for those millennials who've already dipped their toes in the investment waters, many refuse to wander into the deep zone, choosing to stick with overly conservative investments like GICs, bonds, or low-growth stalwarts for prolonged periods of time.

While it's true that every investor has their own unique tolerance for risk, and not everybody is suited for stomach-churning growth stocks, the fact remains that millennials are better geared to invest in such choppy, higher-growth securities than their parents.

The problem is not the millennial's *ability* to take on more volatility or perceived risk. Rather, their *willingness* to take on a higher degree of perceived risk may be lower thanks in part to the dot-com bust and Great Recession, which acted as a one-two punch to the gut of many millennials who graduated in the 2010s.

As a result, many traumatized millennial investors may be worried that the next big crash may be around the corner. And while it's always wise to consider the bear scenario, it's never a smart idea to time a downfall over the near to medium term. By doing so, one could miss out on years or even decades worth of big gains from a bull run as they achieve returns that are just on par with inflation.

Many young investors who've made their regular contributions are now sitting on TFSAs worth north of $70,000. For the extremely risk averse, a majority of the TFSA proceeds may be invested in risk-free securities. Over a long-term horizon, such an overly conservative TFSA portfolio will be destined to underperform, even with recessions thrown into the mix. Not only is such a TFSA going to see its growth become stunted, but there won't be many capital gains (if any) to shield from the tax man.

What's a rattled millennial investor to do with their TFSA funds?

Opt for dividend-paying securities like **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP), and forget about bonds altogether.

While most model portfolios have a section reserved for such fixed-income securities, I ultimately believe that young investors like millennials have absolutely no business owning such no-growth instruments if they have time horizons beyond a decade.

Shares of Brookfield Renewables, while more volatile than most shorter-term duration bonds, is a heck of a lot more generous when it comes to income with a distribution yield that currently sits at 6.5%. And although the distribution isn't technically as safe as a bond's coupon, investors would be comforted to know that the payout is covered by free cash flow.

Moreover, given the highly regulated and "growthy" nature of the renewable energy business, the company's distribution is ripe to be raised at a mid to high single-digit rate per year moving forward. Although there is a considerable amount of debt on the balance sheet (debt-to-equity ratio of 1.97), leaving limited financial wiggle room, I ultimately believe that the company's more transparent growth runway will allow management to maintain a balance between growth initiatives and the rewarding of its shareholders.

Foolish takeaway

Over the long term, Brookfield Renewables will blow risk-free securities right out of the water. The upfront yield and the potential for capital gains dwarf most alternatives out there, so risk-averse millennials should strongly think about dollar-cost averaging into a small position today while shares are depressed to give their TFSAs a much-needed jolt.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/23

Date Created
2019/03/18
Author
joefrenette