Watch Out: 3 More TFSA Mistakes to Avoid

Description

Last week, I went over three TFSA mistakes that investors need to avoid. With tax season wrapping up for most Canadians, it is worth going over three more common mistakes that can hurt you in the long term.

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Transferring between institutions

It is not uncommon for investors to hop between institutions or to hold multiple TFSAs if they belong to several banks. However, you can lose out on valuable contribution room if you fail to transfer between registered accounts using a Form T2033. Investors can use this form to facilitate a direct transfer either in cash or in kind.

If you fail to use a Form T2033 and facilitate a withdrawal and transfer to a TFSA at another institution, it will count as a TFSA withdrawal and a subsequent contribution. This means that a large transfer has the potential to wipe out a significant amount of contribution room for the year.

Failing to effectively diversify

In the article linked above, I discussed why investors should avoid being too risk averse in their TFSA. Inadequate diversification can also severely limit the potential of your TFSA portfolio.

Earlier this week, I pointed out three “double-threat” stocks that offer an attractive combination of growth and income. **CAE** (TSX:CAE)(NYSE:CAE) was one of the stocks I identified. The company is in a great position to benefit from increased defence spending in Canada, the United States, and across the developed world. CAE reported a record $9 billion backlog at the end of the third quarter of fiscal 2019.

Shares of CAE have climbed 20.8% in 2019 as of close on April 17. The stock has climbed over 100% over the past three years. The company recently hiked its quarterly dividend to $0.10 per share, which represents a modest 1.3% yield. CAE has achieved dividend growth for 11 consecutive years.

Letting your gains get gobbled up by fees

Many Fool readers have chosen to direct their own portfolios. However, many of you have stuck with mutual funds or ETFs over the course of one of the longest bull markets in history. In previous articles, I have discussed why stacking conservative blue-chip stocks is a better option than mutual funds or ETFs, which have emerged as a low-fee alternative for passive investors.

Royal Bank (TSX:RY)(NYSE:RY) recently launched InvestEase, a robo-advisor service for those who favour passive investment. An active investor could just as easily scoop up Royal Bank stock, which has offered attractive capital growth and income over the past decade. Shares of Royal Bank had climbed 149% over the past decade as of close on April 17. The stock is up 13.1% in 2019.

In its first-quarter report, Royal Bank announced a 4% increase in its quarterly dividend to $1.02 per share. This represents a 3.8% yield.

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Royal Bank is the largest financial institution in Canada and one of the largest banks in the world. Mutual funds and ETFs are marketed to investors for the diversification they offer, but a simple blue-chip bank stock like Royal Bank is a preferable alternative. Of course, we advocate for investors to diversify beyond one stock. It just so happens that owning one top-tier bank stock over the past decade would have netted investors more gains and income than most fee-based vehicles.

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