Millennials: A Top Investment to Start Your TFSA Retirement Fund

Description

Young investors should seek to keep things simple with their TFSAs.

It doesn't take much effort to leverage the full power of long-term tax-free compounding, and contrary to popular belief, you don't need to gamble your hard-earned dollars on speculative "make-or-break" securities in the depths of the TSXV to grow your wealth at a rapid rate. What you do need is the time and patience to hang on to the winners once you've found them.

As a millennial, you've got time on your side, and with enough practice, you'll have the patience of Charlie Munger, who still pounds the table on the "sit-on-your-bum" approach to investing to this day.

When starting a retirement fund, it's critical that you start with lower volatility plays with proven track records of outperformance, so you don't give your future self a chance to second guess your investment theses made at the time of purchase.

Your goal should be to make sure you don't scare yourself out of the investment game before you've had the chance to know yourself as an investor. And if that means sticking with the good 'ol, boring blue chips you hear being blared in the mainstream financial media on the daily, then so be it.

Such names can still make you substantial wealth over the long haul, even though they don't make for entertaining conversations at the water cooler. In time, after you've gained more knowledge and have had enough time to test out the shallow end of the investment waters, only then should you adventure into the deeper waters.

For those who want a one-stop-shop investment to get started, I'd strongly urge investors to consider the **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB) as a foundation for their TFSAs. The ZLB is a diversified basket of high-quality, low-beta securities that have a low correlation to the broader markets.

In layman's terms, the ZLB "smooths" the ride for investors without sacrificing substantial upside.Unlike index funds, the ZLB contains hand-picked Canadian stocks that have a proven track record of delivering sufficient total returns to investors.

The active managers behind the scenes have been delivering TSX-crushing results since the ETF's inception, and although the services of the semi-active managers are worth paying a pretty penny for, investors would be relieved to know that the MERs (at 0.4%) are nowhere near those of the run-of-the-mill actively-managed mutual funds that are sold at your local financial institution down the street.

You know the mutual funds with the underperforming 2.8% MERs that are slammed in today's TV commercials? The ZLB puts such investment products to shame with its stellar track record, written-in-stone "smart beta" strategy (quality low-beta securities), and ridiculously low MER that's well worth the price of admission.

While a lower beta and lower volatility doesn't fully protect one from violent market crashes as bonds would, the ZLB will fall at a lesser magnitude than that of the market indices. For instance, when the S&P 500 and TSX got pummelled 20% and 17%, respectively, during last year's October-December plunge, the ZLB only fell 9% from peak to trough.

That's half the damage taken compared to index fund investors!

With a lesser amount of pain in the cards during tough times, you'll panic less and increase the odds of recovering any paper losses compared to your beginner peers who've started their TFSA portfolios without a sound foundation.

Stay hungry. Stay Foolish.

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