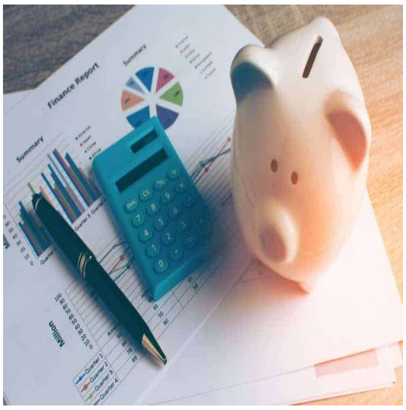

3 Big Mistakes to Avoid in Your TFSA

Description

The Tax-Free Savings Account (TFSA) is one of the best tools available to investors to build their wealth. However, if you make big mistakes in your TFSA, you'll lose that tax-free contribution room super fast.

There's a cap on the annual TFSA contribution room. If you make big bets in your TFSA and you lose money on the investments, either due to a bad choice of investment or losing out to your emotions of greed or fear, it'll take time to play catch-up on the contribution room that you lose.

So, it's best to avoid speculating or experimenting in your TFSA. And one more thing: avoid over-contributing to your TFSA because there's a penalty.

Avoid speculating in your TFSA

There have been multiple times I wanted to buy **Maxar Technologies** (TSX:MAXR)(NYSE:MAXR) stock in the last year. I managed to avoid it because there was always another more quality investment with more certainty to consider. However, if I did buy Maxar, it'd be in a non-registered or taxable account. I would avoid buying it in my TFSA because it's a speculative play.

As it stands, Maxar has a poor S&P credit rating of B. Its balance sheet is weighed down by about $3.3

billion of long-term debt. In the trailing 12 months, the company generated EBIT of -US$136.8 million.

Maxar estimated that its adjusted EBITDA will be about US$550 million this year, which implies that it has a net debt to EBITDA of about six times. The debt levels are high, and the company's viability now relies on its ability to clean up its balance sheet by paying down its debt with its cash flows.

The stock is very sensitive to good news. For example, when it received the insurance payout for its lost satellite, the stock popped more than 20% on the day. A similar price appreciation phenomenon occurred when it was selected for a NASA project in May. However, these kinds of pops will be short-lived until Maxar actually generates consistent healthy cash flow and cleans up its balance sheet.

Avoid experimenting in your TFSA

Avoid experimenting in your TFSA because if you book a loss on your investments, you'll lose that contribution room, and it'll take time to play catch up. If you book a 50% loss, you'll need a 100% gain to make it back to breakeven!

Avoid over-contributing to your TFSA

Avoid over-contributing to your TFSA, as you'll have to pay a penalty of 1% per month (12% a year) on the over-contributed amount, and that'll defeat the purpose of a tax-free account. The over-contributed amount is better off being invested in a non-registered account, for example, aiming for returns of 12% per year. You can always transfer in kind if you so wish in the following calendar year when there's new TFSA contribution room.

Foolish takeaway

Avoid speculating and experimenting in your TFSA. Learn the ropes and find an investment strategy that works for you in a taxable account. Then re-create the success in your TFSA account for tax-free returns. The strategy will likely be an integrated one. A tried-and-true strategy is value investing in quality dividend stocks.

Bank of Nova Scotia is a great example of that — one which won't deliver those one-day 20% pops that Maxar could, but it can deliver returns of 10-14% per year at today's levels, including a 5% yield and safety on your principal, as long as you have a long-term investor's mindset.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:MAXR (Maxar Technologies)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
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