Millennials: 3 Mistakes to Avoid in Your TFSA

Description

Millennials are in an interesting time of their lives. People born in the early 80s to the late 90s are the so-called millennials. They can be anywhere from 22 to 37 years old. It's a new chapter in their existence, because school is about to finish, careers are starting, and families are growing.

But what should be growing alongside these millennials are their investment accounts. And there's no better way to start saving for the future or the retirement years than through the TFSA. The facility is extremely flexible. You are allowed to put in as many different types of interest-bearing or dividend-earning investments.

That being said, here are three of the biggest mistakes millennials make when investing in their TFSAs.

Mistake #1: Not paying off your high-interest debt first

Only 20% of Canadians in the 26-37 age brackets are debt-free. The liabilities include higher rate debts such as credit card balances, student loans, and other indebtedness, but not mortgages.

If you have high-interest debts, you have to pay them off before contributing to a TFSA. For example, an outstanding credit card balance that charges 15% interest rate needs to be settled first. Otherwise, buying a stock in your TFSA will defeat the very purpose for which the account was opened.

By not paying off debts, you will be prevented from realizing higher returns over and above the 15% interest rate. You're better off without the credit card debt when growing the TFSA.

Mistake #2: Starting too late

It is always better to start investing early. With the magic of compounding returns, a few years can make a huge difference. Here's an example of the power of the time value of money:

Had you invested $10,000 in a blue-chip stock like **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) 10 years ago in 2009 and reinvested all dividends into more shares, your investment would be worth around $40,500 today. If you'd invested earlier or 20 years ago in 1999, the investment would be worth a mind-blowing $144,916 at the present.

What is really interesting is that both these time periods had similar average annual returns of between 14% and 15% for TD. The only major difference is the time frame within which the purchase or investment was made. Take note of the material difference in the absolute amount.

Mistake #3: Buying hype

It is very tempting to buy a hyped-up stock, especially if everyone from your neighbours to the barista at **Starbucks** is buzzing about it. But chances are, and if everyone is consumed by the talk, you're probably too late to invest and would be buying at the top.

On October 15, 2018, at the height of the marijuana hype and right before legalization, **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) was trading at $15.07. Fewer than two months later, the stock was trading between $6 and $7. All other major cannabis players suffered the same fate.

Since then, the stock has recovered and is trading at $9.64. The company has reported strong sales growth based on its latest earnings report with production costs diminishing.

Don't believe or be influenced by the hype. The best strategy is to start early and pay off all outstanding debts. That will place you on the right path to a very wealthy TFSA.

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