This Is the Only Mistake You Need to Avoid in Your TFSA

Description

Because what's earned inside Tax-Free Savings Accounts (TFSAs) is tax free, some investors choose to take excessive risk, such as buying penny stocks in the hopes that some would fly to the moon. That's more risk than most investors can handle and a quick way to lose money.

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Contributions to TFSAs are limited. If you take excessive risk and you lose money, it can take *years* for your TFSA portfolio to recover.

How to avoid taking excessive risk in your TFSA

To avoid taking excessive risk in your TFSA, focus on quality and valuation. To ensure your TFSA portfolio continues to grow bigger over time, secure your TFSA with quality dividend stocks first. Then, use the dividends received to fund riskier investments (if that's what you want)

If you've never contributed to a TFSA before. You could have as much as $63,500 of tax-free contribution room this year. In today's market, investors can get a safe portfolio yield of about 5%.

So, you can get dividend income of $3,175 per year to invest in riskier investments. The good news is that many dividend stocks increase their dividends. Thus, it's only natural you'll receive bigger dividend cheques to pool in with your yearly TFSA contributions to make future investments.

Quality stocks that offer 5% dividend yields

Popular stocks that are attractively priced and offer yields of 5% or higher include **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Enbridge** (TSX:ENB)(NYSE:ENB). Investors are in luck because both dividend growth stocks offer yields of greater than 5%.

CIBC stock offers a safe yield of about 5.6%. The Big Bank trades at a discount of about 20% from its normal multiple. Additionally, it has increased its dividend at a compound annual growth rate (CAGR) of 7% in the last five years.

With a payout ratio of about 46% and steady earnings growth, the bank can carry on increasing its dividend.

ENB stock offers a safe yield of roughly 6.5%. The North American energy infrastructure leader trades at a discount of approximately 15%. Moreover, it has increased its dividend at a CAGR of 16% in the last five years. Its distributable cash flow payout ratio of about 66% and stable cash flow growth allows the company to continue increasing its dividend.

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Foolish takeaway

Investment losses can take years to recover. So, you don't want to take excessive risk in your TFSA. Instead, populate your TFSA portfolio with undervalued dividend stocks such as CIBC and Enbridge before considering to expand to a higher growth or higher risk approach.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
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