Many Canadians Are Failing to Take Full Advantage of Their TFSA

Description

A common theme that keeps emerging regarding tax-free savings account (TFSA) is that many Canadians are failing to maximize the benefits that they provide and supercharge their savings power by using a TFSA to generate outsized growing investment returns.

Instead, according to a survey conducted by **Royal Bank of Canada,** many Canadians use them as a saving storage vehicle, with 42% of all TFSAs being used to hold cash.

Given the dismal returns generated by cash in an economic environment dominated by near historically low interest rates with the threat of further cuts, this doesn't make sense.

Maximizing returns

TFSAs, because of their tax-advantaged nature, are the ideal investment vehicle to hold stocks that are growing in value with a history of delivering value to investors through steadily growing dividends.

You see, any dividend payments and capital gains generated by an investment held in a TFSA are tax free for life, rendering them an ideal vehicle to access the power of compounding and accelerate the speed at which wealth is created.

By allowing investors to generate ever-growing returns on the funds invested in what is essentially a tax-free environment, TFSAs remove one of the greatest impediments to creating lasting wealth: taxes.

In order to maximize their value, Canadians should focus on using their TFSA to achieve their long-term investment goals such as building a retirement nest egg, instead of treating them as short-term savings accounts. Here they can start with as little as the initial maximum contribution for 2019 of $6,000.

Building wealth

One of the most effective low volatile stocks to hold in a TFSA and use to build wealth over 10 years or more is **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP).

It has proven to be highly resistant to economic downturns. With a beta of 0.69, it's significantly less volatile than the market as a whole and many more glamorous stocks, making it the ideal candidate to steadily create wealth over a decade or more.

Brookfield Infrastructure has hiked its distribution for 11 years straight, giving it a tasty yield of just over 4%.

A combination of asset recycling, the fact that the partnership operates in oligopolistic markets, the highly contracted and regulated nature of its revenues and the critical role its assets play in economic activity means that earnings will grow at a steady clip.

That will support Brookfield Infrastructure's plans to grow its distribution by 5% to 9% annually.

For the last 10 years, the partnership would've delivered a stunning total return of 734% had all distributions paid been reinvested, compared to 556% if those payments were taken as cash. That monster return equates to 24% on an annualized basis compared to 21% if the distributions hadn't been reinvested.

This highlights how compound returns can be used accelerate the speed at which wealth is accumulated.

Foolish takeaway

While there's no guarantee that future returns will be the same as past performance, Brookfield Infrastructure is well positioned to keep delivering value for unitholders.

If an eligible investor contributed $6,000 to their TFSA, used that to buy Brookfield Infrastructure, reinvested the distributions and added $6,000 annually, they would have accumulated just over $100,000 after six years, or $1 million in fewer than 16 years.

That highlights just how quickly an investor can build substantial wealth within the tax-sheltered environment of a TFSA when using a high-quality low volatility company that's regularly growing its dividend at a steady clip.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

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1. Business Insider
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