TFSA Investors: Avoid These Common and Costly Investing Mistakes!

Description

A TFSA is an awesome way to save money for life's biggest events, such as retirement, a once-in-a-lifetime vacation, or a down payment on a house. The biggest advantage of a TFSA is that all of the money, including dividends and capital gains, grows tax free.

This tax-free growth makes the TFSA a great tool when saving for your goals. However, there are three common and costly mistakes to avoid.

Investing too conservatively

Historically, equities have outperformed every other asset class and provided the highest long-term rate of return. Amid this low interest rate environment, any profit made from money sitting in cash or a low interest-bearing account will get eaten away by inflation.

Instead, a TFSA is perfect for growth stocks or companies that pay a hefty dividend.

If you're looking for potentially high-growth stocks, think about **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM). Since 2001, this stock has returned an average of 17% per year.

The company maintains a diversified core portfolio, with assets in real estate, renewable power, infrastructure, and private equity. Brookfield boasts over $385 billion in assets under management.

Brookfield is estimating a 12% growth in the number of its clients through 2023.

If you prefer high-yield dividend stocks, consider **Power Financial Corporation** (TSX:PWF), which currently pays a dividend of 6.13%. The dividend has increased in each of the past five years.

With a market cap of $20.4 billion, Power Financial's operating companies include well-known names, such as **Great-West Lifeco** and **IGM Financial**.

Most of Power Financial's investment businesses are focused on the traditional model of the personal relationships between financial advisors and clients. However, the company is rapidly expanding into fintech with interests in Wealthsimple and Personal Capital, both emerging leaders in digital finance.

Power Financial is also a significant shareholder in European-based **Pargesa Group**. Pargesa has holdings in various global industrial and services companies, including **Adidas**, the sports equipment maker.

Although most of Power Financial's holdings are in the financial services sector, the underlying assets of Pargesa offer greater diversification.

Failing to take advantage of catch-up provisions

As of this year, you could have contributed a total of $63,500 to your TFSA. The CRA sets the contribution limits each year. For each of the past 10 years, these limits were as follows: $5,000 for each year from 2009 to 2012; $5,500 for 2013 and 2014; $10,000 for 2015; $5,500 for each year from 2016 to 2018; and $6,000 for 2019.

What if you missed contributing one year? No worries. You're allowed to catch up on contributions as long as they don't exceed the total maximum allowable amount of $63,500.

Not contributing to a TFSA

According to **Sun Life Financial**, it's a common myth among Canadians that if you didn't open an account in 2009 when TFSAs were introduced, you missed out on the opportunity to invest in a TFSA. Nothing could be further from the truth.

While it's true that the earlier you open an account the more time your investments have to grow, you can open a TFSA at any time.

By avoiding these common investment mistakes, a TFSA is an excellent way to save for the most exciting events in your life!

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