TFSA Investors: This Is the Worst Mistake You Can Make

Description

The TFSA is a wonderful thing: a tax-free account where we can invest in tons of different businesses and potentially save on hundreds of thousands of dollars of taxes in our lifetime.

For most people, maxing out your TFSA should be your number one priority, and although you can withdraw money whenever you need without penalty, unlike the RRSP, you should strive to keep it maxed out if you have the means to do so.

One thing investors should avoid doing, however, is investing in high-risk companies, because in addition to risking the money you are investing, you are also risking valuable contribution room, which will take much longer to make back.

It can be tempting to invest in high-risk, high-reward stocks because of the tax you could save if the company were to multiply several times over. Nonetheless, it wouldn't be worth it to risk a significant portion of your contribution room, regardless of the potential outcome.

If you are looking to do a small amount, then that's a different story that could be attempted on a case-by-case basis, depending on your personal scenario, but nothing major should be attempted.

The TFSA should be used to buy top-quality, long-term, dividend-paying stocks. Acquiring these amazing companies and holding them for the long term is the ideal strategy because the compound growth coupled with no taxes creates a massive snowball effect.

Implementing a disciplined strategy and only buying high-quality stocks when they are trading for a fair value is the best way to use your TFSA to maximize your investment returns.

It should consist of a number of core stocks from different industries, so the portfolio is diversified. An example of a top stock would be **Suncor Energy** (TSX:SU)(NYSE:SU).

Suncor is an ideal stock because it is such a large, dependable, and vertically integrated company that's at the heart of the Canadian economy. It's one of the largest producers of oil in Canada andowns midstream assets and over 1,750 retail gas stations.

In the last 12 months, Suncor has grown its return on equity to more than 12.5%, increased its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin, as well as hiked its dividend by more than 16%.

The growing dividend, which currently yields roughly 4.2%, and low payout ratio of just 43% are prime examples of Suncor's abilities and why investors can sleep easy putting their hard-earned money to work in Suncor.

With Suncor's strong operations and its increased efficiency, it's one of the best companies in Canada to own, especially if you are looking for energy exposure.

In addition, Suncor has a number of future growth projects available that it can access when the economic environment better supports them, so investors can continuously acquire shares of Suncor as your portfolio grows, while never having to worry about selling it.

Suncor is one of the best examples of a company investors should look to to build most or all of their portfolio. Finding high-quality companies that will grow for decades is the most efficient way to take advantage of TFSA contribution room.

Over the long term, the guaranteed returns you will receive from a diversified portfolio of top-quality companies will far outpace the returns of investors who are using their contribution room to make high-risk investments.

After all it's a tax-free SAVINGS account, not a gambling or speculating account, so don't make that massive, impulsive mistake.

Stay hungry. Stay Foolish.

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2. Energy Stocks
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