3 TFSA Mistakes That Could Cost You a Fortune

Description

Many Canadians aren't getting the most out of their TFSAs. This piece will have a look at three mistakes that could shave years, if not decades, off one's retirement, or doom one to an uncomfortable retirement that involves excessive frugality and over reliance on one's skinnier-than-expected pension.

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Without further ado, consider the following TFSA mistakes and how to avoid them.

Hoarding cash, GICs, bonds, and other low-or-no-risk/low-return investments

One common mistake is opting for TFSA "high-interest" savings accounts, which won't grow one's wealth over time. Most would be horrified to discover that such "high-interest" rates in such savings accounts are actually so low that it may fall short of the rate of inflation for any given quarter, effectively risking a tremendous loss of purchasing power over the long run.

GICs and bonds are also deemed as "risk-free" securities, but in today's environment, the slightly higher interest offered relative to savings accounts is sufficient for one who's serious about growing wealth for retirement.

Such low-to-no-risk instruments are save havens from market crashes, and while it's a good idea to have dry powder handy for such instances, it's typically not a good idea to be overweight in them with your TFSA. By being overweight such investments, you'd effectively be timing a crash, and if it didn't happen, or you didn't buy on the said crash, you'd be forfeiting a tonne of capital appreciation in an upmarket and dividends under any environment.

Owning too many high-yielding U.S. stocks

I get it; the TSX Index has vastly underperformed the S&P 500 over the last decade. And moving forward, the Canadian indices will probably continue to drag along thanks to its overexposure to the

cyclical energy and materials sectors.

That doesn't mean you should shy away from individual Canadian stocks, though, especially the outperforming Dividend Aristocrats, like the Canadian banks, such as **Bank of Montreal** (TSX:BMO)(NYSE:BMO), which has blown the TSX out of the water consistently over time.

You see, by looking south of the border for your dividend fix, you'd be suffering a penalty courtesy of Uncle Sam — a 15% U.S. dividend withholding tax.

That percentage of your U.S. dividend would be unrecoverable within a TFSA, so unless for some reason you want to enrich the U.S. government at your own expense, it's in your best interest to keep U.S. dividend stocks out of your TFSA and replace them with Canadian dividend stocks like BMO, which has a strong U.S. segment and a 4.3%-yielding dividend that's entirely yours to keep in a TFSA.

Not contributing the maximum amount to a TFSA ASAP

Every year is another $6,000 that can be added to a TFSA. The proceeds don't need to be put to work immediately, but forgetting to contribute if one's able to is a mistake that could surrender a considerable amount of tax-free compounding.

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A dollar in a TFSA is worth a heck of a lot more than a dollar outside it, and if systematically invested within blue chips like BMO, one's results would likely be a heck of a lot better over the long run. Timing the market is a foolish (that's a lower-case *f*, folks!) endeavour, especially when you've got a chunky dividend to collect while you wait.

At the time of writing, Canadian banks like BMO are darn cheap thanks to macro pressures that are already baked in. So, with TFSA top-up season on the horizon, you may want to consider adding $6,000 to your TFSA the moment the new year hits and use the proceeds to buy a bank like BMO for the dividend and the long-term appreciation potential.

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