



Canadians: Stop Making These Wealth-Destroying Mistakes With Your TFSA

Description

Despite being introduced in 2009 as part of a strategy to promote saving and wealth creation for ordinary Canadians, many fail to realize the [full potential](#) provided by Tax-Free Savings Accounts (TFSAs) to accelerate building wealth. A key advantage is that TFSAs are a tax-sheltered investment vehicle where all capital gains, dividends, and interest payments are tax free for the life of the investment. That removes the corrosive impact taxes have on investment returns, thereby allowing you to accumulate wealth faster. This makes the accounts ideal to hold growth-oriented, high-yielding investments rather than cash or other low-return assets.

Failing to fully benefit

According to data from Statistics Canada, only around 40% of all Canadian households have a TFSA, indicating that many Canadians are failing to utilize the advantages offered by the accounts and the benefits that they offer. Of even greater concern is that research conducted by **Royal Bank of Canada** shows that 42% of TFSA holders have significant cash balances. This means many Canadians aren't fully benefiting from the investment vehicle's tax-sheltered status, thereby incurring a massive opportunity cost when it comes to building wealth and achieving financial independence.

Essentially, TFSAs are an ideal vehicle for accumulating wealth over the long term by investing in high-quality stocks that possess wide economic moats, dependable earnings, and solid growth potential. There is no reason for any Canadian to have a large cash balance in such an account.

While some pundits claim they are an ideal vehicle for speculative high-growth investments such as cannabis stocks, the significant volatility and risk associated with those types of stocks make them an unattractive means of accumulating wealth. An excellent class of stocks to hold in a TFSA are real estate investment trusts (REITs). This is because they are less volatile than many other stocks, pay regular distributions with juicy yields, and [are resilient](#) to economic slumps because they invest in real estate.

Diversified property portfolio

An ideal REIT for building wealth over the long term is **Northwest Healthcare Properties REIT** ([TSX:NWH.UN](#)). It has gained an impressive 27% since the start of 2019 and pays a sustainable distribution yielding a very juicy 7%. Northwest Healthcare is experiencing strong growth and has a long history of unlocking value for investors. The REIT's second-quarter 2019 net operating income (NOI) rose by 8% year over year, adjusted funds flow (AFFO) per unit diluted shot up by 5%, and it finished the period with an impressive occupancy rate of 97.2%.

Northwest Healthcare recently closed the \$1.2 billion acquisition of Australia's second-largest hospital operator Healthscope, which along with moves to expand its portfolio in Germany, will lift earnings. Demand for healthcare remains relatively inelastic, further reducing the impact of a recession on its performance.

Those characteristics coupled with the contracted nature of Northwest Healthcare's revenues ensures that not only are its earnings stable, but that they will continue to grow, particularly with an aging population in the countries where it operates acting as a powerful tailwind. The diversified nature of Northwest Healthcare's property portfolio, which spans Canada, Brazil, Germany, the Netherlands, Australia, and New Zealand, further mitigates the negative effect of an economic downturn on its earnings.

Northwest Healthcare offers a distribution-reinvestment plan (DRIP), which allows unitholders to reinvest their distributions in additional units at no extra cost. By doing so, they can access the power of compounding and accelerate the pace at which they create wealth. The potential this has to boost returns is illustrated by Northwest Healthcare delivering a total return over the last five years with distributions reinvested of 75%, or 12% on an annualized basis, compared to 60%, or 10% annually, if they were taken as cash.

Foolish takeaway

Northwest Healthcare is an ideal buy-and-hold investment for any TFSA. It operates in an industry with oligopolistic characteristics, where demand is relatively inelastic and possesses steep barriers to entry, virtually assuring Northwest Healthcare's earnings and the sustainability of its distribution. The REIT's long-term earnings growth is essentially guaranteed in a world where an aging population in developed nations is creating an ever-greater demand for healthcare.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/09/27

Date Created

2019/10/22

Author

mattdsmith

default watermark

default watermark