TFSA Investors: 1 Mistake You'll Want to Avoid Making in Your Portfolio

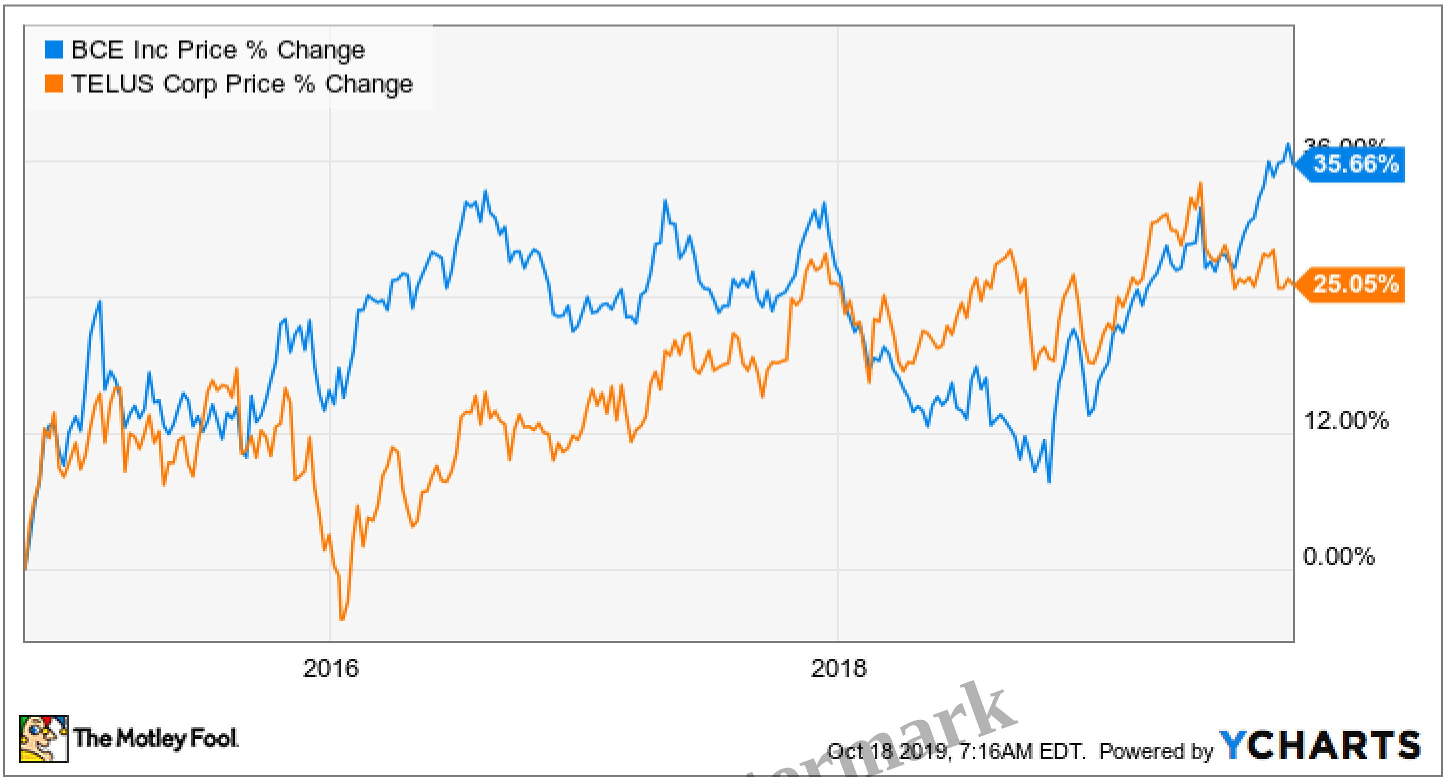
Description

A TFSA can be a great method for investors to build and accumulate savings over the years. With the investments stored in there being able to avoid taxes on any dividend income or gains, it gives account holders a big advantage over holding shares in an RRSP where tax is merely deferred. As well, it's also a lot more flexible, and investors can easily move their money out should they need it for an emergency.

For investors, a TFSA a good place to build a long-term portfolio that can help you save for the future. However, in doing so, you need to be careful in your stock selection. If you invest in too many similar stocks, you could be doing yourself a disservice by not diversifying your portfolio enough.

Why you should avoid socks that are correlated

If you want to avoid risk in your portfolio, what you should consider doing is investing in stocks that aren't like one another. For instance, if you hold shares of **BCE Inc.** (TSX:BCE)(NYSE:BCE), then also investing into **Telus Corp** (TSX:T)(NYSE:TU) may not be the best idea, and here's why:



[BCE](#) data by [YCharts](#)

Over the years, the stocks have generally moved in the same direction. While it has been far from a one-to-one relationship, there's been some consistency in their paths. Like BCE, Telus is heavily involved in telecom and so any developments in that industry, good or bad, will likely weigh on both stocks.

While there will be some stock-specific variables that can separate the two in value, it's likely not going to be a big enough delta to provide your portfolio with much diversification.

If you like both stocks, then what you may want to do is evaluate the two and decide which is the better buy and invest in that one. As the returns will be comparable, there may not be enough of a reason to hold both, especially when those funds can be used to invest in other industries that can do a better job of balancing out your portfolio.

Comparing the two stocks today, BCE's dividend of 4.9% is slightly above the 4.7% that Telus pays. However, Telus also is a slightly cheaper stock, trading at 16 times earnings rather than the 19 times that BCE is currently valued at. Clearly, there's not a lot separating the two stocks today.

But with Telus providing you with more bang for your buck, it could be a better option to invest in today. If that's what you decide to do, there may not be much of a reason to also hold shares of BCE.

Bottom line

Diversifying your holdings can be a great way for you to not worry about your portfolio over the [long term](#). Knowing that you aren't too overly exposed to one sector or industry can help not only put your mind at ease but to limit your exposure to a certain type of stock.

When investing for the long term, the last thing you want to have to worry about is checking on your portfolio every day. With a diversified group of stocks, you'll certainly minimize the desire to do just that.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:TU (TELUS)
3. TSX:BCE (BCE Inc.)
4. TSX:T (TELUS)

PARTNER-FEEDS

1. Business Insider
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Date
2025/09/08
Date Created
2019/10/22
Author
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