TFSA Investors: 1 Incredibly Easy Way to Boost Your Contribution Value

Description

If you're already investing through a TFSA, then congratulations. Every year, millions of Canadians fail to tap into the tax-free potential of a TFSA. Over time, these tax benefits can be worth thousands of dollars. But having a TFSA is only half the battle. For it to benefit you, it needs to be filled with regular contributions. After all, what good is an account that shields you from capital gains and dividend taxes if you're not generating any capital gains or dividends?

Here are the basic rules when it comes to TFSA contributions. The annual contribution limit is set at $6,000 for 2019. From 2016 to 2018, the limit was a bit lower at $5,500. Here's the important part: unused contribution space is carried forward and added to your TFSA contribution limit the following year. Plus, any withdrawals made in any given year creates additional contribution room the following year.

So, if you're set to invest $6,000 into your TFSA this year, that's incredible, but it may not be your theoretical maximum. If you took withdrawals or had excess contribution space last year, you have the opportunity to invest *even more* this year.

But yet again, tapping into these contribution loopholes only works if you're already contributing regularly to your TFSA. If you're having trouble meeting the maximum contribution each year, there's one hyper-successful hack that's been used by millions of investors worldwide to meet their savings targets. It's surprisingly simple but consistently effective. All you have to do is automate your contributions.

How automation works

Society is automating everything. From refrigerators that reorder milk for you to cars that drive themselves, the possibilities are endless. Yet there's one thing that should be automated but isn't: your portfolio. I'm not talking about a robo-advisor, but simply automating your contributions. If you don't have automatic contributions, you're missing out on a scientifically proven method of getting rich.

Behavioural psychologists often refer to the "default effect." A default option is what you'll end up with if you simply do nothing. Here's an example. Say you're at a restaurant and they provide you with napkins by default. The percentage of customers that end up receiving a napkin is likely close to 100% given this is the default option. You would have to *take action* to avoid the default option. The reverse is also true. If the default option was to *not* receive a napkin, the number of customers ultimately receiving a napkin would plummet, simply because getting one now requires effort. These types of experiments have been proven again and again.

You can use the default effect to permanently increase your TFSA contributions. Many investors today don't have automated contributions set up. For example, most retirement accounts allow you to have a set amount of money *automatically* withdrawn from your bank account each month. If you don't have these automated transactions in place, your default option is to *not* invest each month. But if you do have them in place, your default option *is* to invest. It's as simple as that.

Keep it simple

Automatic investment schedules use proven behavioural science to boost your annual contribution value. An investor that automatically contributes to their account each month will, on average, invest more than an investor without automatic contributions.

From there, it doesn't require a genius to wisely invest your automatic contributions. High-quality stocks like **Enbridge**, **Hydro One**, and **CT Real Estate Investment Trust** have sustainable business models with sizable dividends to produce regular cash income. Stocks like **Shopify** can add long-term growth potential to your portfolio, especially if you find these stocks *before* they're recognized by the market.

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