



Young Canadians: What Types of Investments Should You Hold in a TFSA?

Description

When you're just starting to learn about investing, the options can be overwhelming. There are so many acronyms to learn, such as the TFSA, RRSP, CPP, and RESP, to name but a few.

I'm here to narrow the field and tell you that it's almost always best to start investing with the TFSA. Here are my thoughts about what to hold in your TFSA.

What you can put into the TFSA

Let's start with your main options for investing in your TFSA. Inside your TFSA, you can hold cash, stocks listed on a designated exchange, GICs, bonds, and mutual funds.

Of those choices, cash, bonds, and GICs aren't a great option right now because of the extremely low interest rates you will earn on it.

These interest rates often won't even outpace inflation, meaning that by holding your investments in these, you'll be losing the real value of it.

This leaves us with mutual funds and stocks. Mutual funds in Canada are notorious for the high fees. A recent report by Barrons stated that Canada had the third-highest fees for equity funds, at 1.98%, in the world.

To me, it seems like stocks are a clear choice here for investing in your TFSA.

Diversify with dividend stocks

As young Canadians, you have a long investment period ahead of you. With so many stocks to choose from, it's best to [focus on dividend stocks](#) when starting. A dividend is what a company pays out to shareholders out of its profits.

While nobody can forecast with certainty how a stock will perform, if a company has been steadily

paying out dividends, this is a good indicator of a good company and that it should be able to continue paying going forward.

Take, for example, our [reigning champion](#) dividend stock, **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)). BMO needs no introduction and is a favourite top stock of wealth builders and income seekers.

While the bank's primary focus is on the Canadian market, BMO's international business is also steadily improving.

But the best feature about BMO is its ridiculous 190-year dividend payout streak. This means that in the past 190 years, BMO has paid its shareholders a dividend.

With a current healthy dividend yield of 4.22%, this is a significant amount the company has given to investors over the years.

If you had invested \$1,000 in BMO 10 years ago and reinvested the dividends, your stocks would be worth \$2,842 today. This is where the beauty of the TFSA comes in because all of the dividends you earned over the years on the tax would be tax-free, and even when you sell the stock, there won't be any capital gains tax.

Conclusion

If you're starting to learn about investing, you probably can see that it can be overwhelmingly confusing at times. But if you start early and use good dividend stocks in your TFSA, you are well on your way to building great wealth.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

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