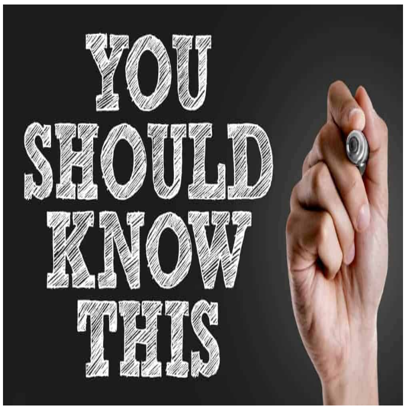

1 Massive TFSA Mistake to Avoid in 2020

Description

With less than two months left in this decade, investors still have the time to reflect on the 2010s. Here at the Fool, we've been hammering home mistakes investors need to avoid in their Tax-Free Savings Accounts (TFSAs). The TFSA was introduced by the Harper-led Conservative government in 2009 and has since become a favourite vehicle for many Canadians.

TFSAs have become a favourite among savers, and it is not hard to see why. These accounts are user friendly and simple to understand compared to the more complex ins and outs of the RRSP. However, there is one major mistake that investors are still making with their TFSAs. This is a big one we want to avoid in the 2020s.

Using your TFSA as a savings account

A spring survey from Ipsos revealed that 42% of respondents have a significant amount of money in their TFSA sitting in cash. Investors who are holding cash in their TFSAs are failing to put their money to work. They are missing out on valuable tax-free gains that the market has to offer. But you don't have to take my word for it. Let's look at the facts.

The TSX has failed to generate the kind of returns we have seen on the S&P 500 over the past decade. However, an investor tracking the TSX Index could have still cleaned up in the 2010s. **iShares S&P/TSX 60 ETF** seeks to replicate the performance of the S&P/TSX 60 Index. This is the market index of the 60 largest companies listed on the Toronto Stock Exchange. The ETF has generated average annual returns of 7% over the past 10 years as of close on November 5.

Central banks moved to dramatically lower interest rates to combat the Great Recession. That historically low-rate environment has persisted until today, and it has made cash accounts and GICs a poor proposition. At the major banks, these investment vehicles often do not even keep up with inflation. Even the risk-averse saver needs to understand that this is a losing strategy right now.

The common belief among many investors is that the low-interest environment is temporary. Recent events have thrown cold water on that supposition. Central banks in the developed world have turned dovish in the face of global economic headwinds. The U.S. Federal Reserve cut rates for the third time in October. The Bank of Canada recently said that its outlook for the global economy has weakened, and many analysts expect that it will seek a downward move in early 2020.

Investors who have stuck to cash should not be pushed into risky growth stocks right away. Instead, we should focus on stable equities with a history of positive capital growth and a proven track record of dividend increases.

Bank stocks are a great way to start off. **Toronto-Dominion Bank**, for example, has achieved average annual returns of 11.4% over the past decade. The stock currently offers a quarterly dividend of $0.74 per share, representing a 3.9% yield. It has delivered dividend growth for eight consecutive years.

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