



3 Reasons NOT to Buy Speculative Growth Stock in a TFSA

Description

The TFSA is an amazing, powerful tool to compound your investing growth. Any earnings within a TFSA are held entirely tax-free. This allows you to compound your investment gains quicker over time, leading to growth that should far exceed your gains in a taxable account.

With the benefit of getting to keep your money out of the hands of the government, it makes the TFSA the obvious place to hold growth stocks, right?

Wrong. In my very conservative opinion, the TFSA is the worst place to keep your highly speculative growth stocks. Despite the tax-sheltered benefits, the TFSA should be used to hold only your most stable and secure [dividend-paying stocks](#) of Canadian (and British) origin, as well as any stable non-dividend paying stocks. Why not speculate, do you ask? Let me delve into the reasons.

Taxes

Although you keep the government's hands off any capital gains, you also lose your own ability to use any capital losses to your advantage.

Let's say you had invested in **Bausch Health Companies Inc.** ([TSX:BHC](#))([NYSE:BHC](#)) — formerly Valeant Pharmaceuticals — a couple of years ago and bought 100 shares at a price of \$100 a share at writing.

Then let's say you rode those shares up to \$300. You would have felt pretty good with those capital gains.

But what if you then rode those shares all the way down to the current share price of \$30. You would not have the ability to claim a capital loss. The only thing you could do is sell the shares and use the money you have left to try again with something else.

What a painful hit to your investments. Furthermore, the stock didn't even pay dividends over that time, adding insult to injury.

Even today, with Bausch making excellent strides to reshape the company not just in name but in execution, I would choose to buy this in a taxable account.

Contributions are limited

While the TFSA is an amazing account, the amount you can put in is very limited. As of 2019, the total amount of contribution room you would have in your TFSA if you had never contributed would be \$63,000.

While that may seem like a lot, consider the situation above with Valeant. If you had the wisdom — or more likely the luck — to sell at \$300 a share, you would have locked in a \$20,000 gain tax-free.

Unfortunately, you could have also been unfortunate enough to ride it down, in which case you would have lost \$70,000 of contribution room in your TFSA. That's around 11% of your contribution room gone in a flash.

Dividend stocks grow as well

Although it can be very tempting to buy growth stocks for their big capital gains, dividend stocks can grow as well. Consider what has happened over the last year, with many stable utilities and telecoms increasing around 30% since last fall. Tack on the dividend yields of between 3-6% and dividend growth and you will see some great appreciation over time.

Also, you can purchase shares of strong British dividend-paying companies like **Unilever PLC** and **Diageo PLC**.

These stocks pay healthy U.S. dollar dividends that don't have a withholding tax. And as the dividends don't benefit from the Canadian dividend tax credit, holding them in a TFSA helps you to keep that USD tax-free.

You can then use those dividends to buy shares in stable, non-dividend paying American growth stocks like **Alphabet Inc.** ([NASDAQ:GOOGL](#)) that have excellent growth and are great long-term holds.

The bottom line

While you can buy growth stocks in [your TFSA](#), try to avoid purchasing shares of speculative growth stocks. These companies with lots of debt, no earnings and insane multiples, can seriously damage your returns. They also don't allow you to use any losses in a favourable manner.

Stick to Canadian and British dividend-paying stocks in your TFSA. If you do wish to buy growth stocks, purchase only the most stable ones you can hold for years. Do not speculate on growth or your account will likely get crushed.

CATEGORY

1. Dividend Stocks
2. Investing
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4. Tech Stocks

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)

PARTNER-FEEDS

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