TFSA Investing: Avoid This Common and Highly Costly Mistake

Description

Logically, it makes sense for investors to want to take advantage of the tax-free nature of the Tax-Free Savings Account (TFSA).

Nobody wants to pay taxes, as it severely lowers your overall real returns and adds another layer of complexity to the already convoluted nature of the investment world.

This leads some investors to want to use their TFSA room to invest in high-risk, high-reward stocks, such as penny stocks hopes that when the stock reaches its ultimate potential, usually several multiples of the initial investment, the investor won't be on the hook for huge capital gains taxes.

The problem in this case is that you are not only risking your capital, but also future growth opportunities because if you lose that money, and consequently that contribution room, you will be at a significant disadvantage to reaching your long-term goals.

Instead, if you want to use your TFSA for a higher-growth strategy, consider a better-quality investment that may not have as much crazy upside, but will still grow significantly, with a lot less risk.

A stock such as **Cargojet Inc** (TSX:CJT) is the perfect high-growth stock, without much downside.

The first and most important thing to know about Cargojet is that it has more than 90% of the market share for overnight cargo services in Canada, which are almost always time-sensitive items.

Most of what Cargojet delivers is orders from online shopping that need to get to the consumer as quickly as possible.

Speed is paramount in the overnight shipping industry, and this is where Cargojet thrives. Its on-time performance is always extremely high and in the last two quarters it's averaged a 99.4% on-time performance rate.

The reliability of the airline hasn't gone unnoticed, which has prompted it to make numerous deals with many strategic partners, including one of its biggest ever deals this past summer, when it announced a major deal with **Amazon**.

The growth in its numbers is incredible, it's increased its earnings before interest, taxes, depreciation and amortization (EBITDA) by more than 100% since 2016, as well as increasing its revenue by about 45% over the same period.

The growth in its EBITDA being a lot larger than revenue points to the increase it has realized in its margins, which is attractive for investors but not surprising, considering that with airlines any increase in demand and revenue is highly scalable.

The incredible growth in demand for its services has led to growth in the stock price of nearly 300% over the last five years.

At a time when its growth potential couldn't be any greater, the stock's valuation has come down and is considerably less than it used to be, which I think makes it undervalued.

Plus, its enterprise value to EBITDA ratio is still extremely cheap at just 13 times and its price to sales ratio of 2.8 times is also cheap, especially when you consider its EBITDA margin that's north of 33%.

So let's review. Cargojet has more than 90% of one of the fastest-growing industries in Canada today. It's one of the best at what it does, and continues to be rewarded with new deals, which has led it to grow its business by more than 100% since 2014.

This is the kind of stock you want to look for if you want to employ a high-growth strategy in your TFSA.

You never know what could happen, and its stock could still fall if there was a market crash, as with all other stocks, but there will be a much larger cushion due to its high-quality operations and dominance in its industry.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CJT (Cargojet Inc.)

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