Avoid This Major TFSA Mistake That's Costing Canadians Thousands

Description

If you use your Tax-Free Savings Account (TFSA) to hold cash, you are not alone; however, you are making a major mistake and passing up one of the best opportunities to set yourself up for the future.

Although it's called a Tax Free Savings Account (TFSA), it just really be referred to as a Tax-Free Investment Account. The rules surrounding the TFSA allow users to invest in almost anything they can think of, such as stocks, bonds, mutual funds, ETFs and GICs.

Using it merely as a savings account is passing up major opportunity to grow your capital tax free; and the longer you wait, the bigger the opportunity you're giving up due to the compound interest effect, which is why you should make every effort to start investing your money today.

The longer you wait, the bigger the opportunity cost becomes, and you could potentially be missing out on thousands of dollars down the road, so getting your foot in the door is crucial for first-time investors.

Even if you don't have much money, you can begin to build up a portfolio of core stocks that you can see yourself owning forever.

These companies are some of Canada's best; they've around for a while and will continue to operate well into the future.

One stock you may want to consider is **Dollarama Inc** (TSX:DOL).

Dollarama is a great stock for new investors to add to their portfolio because you can expect to hold it forever. It has a long track record of execution and has proven to be a top stock that's worthy of consideration as a core holding in any investor's portfolio.

Dollarama has been in growth mode the last few years, building out its store count in Canada and driving higher same store sales growth.

The numbers point to a highly successful last five years, as it's grown its earnings before interest, taxes, depreciation and amortization (EBITDA) by nearly 100%.

Now, as its store count reaches a slight plateau, Dollarama has looked to other countries to continue its growth, most recently taking a 50.1% stake in Dollar City, a Latin American dollar store chain.

The Dollar City opportunity gives Dollarama plenty of future potential while it focuses on improving its efficiency in Canada and working on its merchandising to continue to drive same store sales growth.

It pays a small dividend that yields roughly 0.4%, which is probably still more than most cash yields sitting dormant in a TFSA. Plus, it only pays out about 10% of its earnings, as it retains the majority of its cash to continue to pursue more growth opportunities.

Finally, in addition to the qualities that make it a great company, given that it sells discount and inferior products, it's likely that the economics will stay strong around its industry as high consumer debt loads and a slowing economy will prompt more customers to shop at discount retailers to save money.

At a valuation of just 25 times earnings, the price is pretty reasonable, especially when you consider Dollarama's growth rate.

As long as it can continue to execute, which I see no reason why it can't, the stock looks like an attractive investment today and is a much better consideration than holding just cash.

Bottom line

The TFSA is such a great opportunity for anyone looking to save and grow their capital, it's a huge mistake to use it just to hold cash.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
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