How Many Stocks Should Investors Hold Inside a TFSA?

Description

Diversification is an important part of any investment strategy, and it can be crucial to ensuring that your Tax-Free Savings Account (TFSA) grows and isn't exposed to too much risk in the process. However, one of the obstacles for TFSA holders is that the cumulative limit is $69,500 for individuals who have never invested in the account and that have been eligible to contribute every year.

Since a TFSA has a limit, you want to be careful not to hold too many stocks. Even with 10 holdings, that would mean you can average no more than $6,950 per investment. That's a reasonable limit if you're looking to get a good cross-section of industries to cover in your portfolio. However, any more than 10, and the amount you will average per investment will have to come down, and you'll have less skin in the game.

Generally, I'd suggest investing at least $5,000 in a stock so that there's an incentive in making it count. For example, investing just $1,000 in a stock will mean that even if it produces an impressive 50% return, you'd only be up $500, even under the best of circumstances.

Not to mention, commission fees will also represent a larger percentage of your investment. A $10 fee to buy a stock and another $10 to sell means that a $1,000 investment will cost you $20 for both commissions, or 2%. If you invest $5,000, that percentage drops to just 0.4%.

Aiming between five and 10 may be ideal

Another reason you don't want to hold too many stocks is that it'll become a challenge to stay on top of them, including news, developments, and keeping track of earnings results. With exchange-traded funds (ETFs) offering investors the ability to hold a wide variety of stocks, you can achieve a lot of diversification with even a few stocks in your portfolio. For instance, **BMO Nasdaq 100 Equity Hedged to CAD Index ETF** can give access to the top stocks on the NASDAQ in your portfolio.

That's where holding as few as five stocks in your portfolio could be sufficient to achieve a lot of diversification, especially when it includes ETFs. But even if you don't hold an ETF, 10 stocks would be sufficient to give you the major industry leaders from key sectors. And that's where holding between five and 10 could be a good range to target.

One stock to build around

If you're not sure which stock to start with, there's no better option than **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). Not only is it one of the top stocks on the TSX, but the big bank is an easy choice for many reasons.

TD has averaged a beta of 0.95 over the past five years, meaning that it will closely follow the market's movements. But that doesn't mean that TD will produce the same results. Generally, TD has outperformed the TSX, and in five years it has risen by 39%, well above the index's 17% returns during that time.

Another great reason to build around TD is that the stock not only pays an attractive quarterly dividend, which is now yielding more than 4% per year. TD has also increased those payouts over the years as well.

Whether you're looking for a value stock, a safe stock, or just one that will produce a lot of income for your portfolio, TD checks off all those boxes and could be a great long-term investment.

Bottom line

There's no right number of stocks to hold in a TFSA, as it'll depend on your overall risk portfolio. However, it's hard to go wrong with five to 10 blue-chip stocks like TD that can generate both capital appreciation and dividend income.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. NYSE:TD (The Toronto-Dominion Bank)
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