TFSA Investor: 2 Reasons Why Sitting on Cash Could Cost You Dearly

Description

The 10th anniversary of the Tax-Free Savings Account (TFSA) demonstrates the changing mindset of Canadians. Based on a recent study by the **Royal Bank of Canada** (TSX:RY)(NYSE:RY), for the first time, there are more TFSA users now versus RRSP users.

Many are starting to realize the importance of investing. Smart TFSA users know that it's foolish to park cash in the TFSA. The account carries the power of accumulating wealth and saving on taxes at the same time.

Long-term compound growth

Let's take, for example, an investment in the Royal Bank of Canada or RBC. The largest bank in Canada by market capitalization pays a dividend of 4.0%. If you use your 2020 TFSA annual contribution limit of $6,000 to buy RBC shares, your money will earn $274.80 in a year.

Keeping your cash or cutting down on expenses is not the way to build wealth. Only through investing will your money earn or grow. Furthermore, owning a blue-chip stock like RBC comes with the power of long-term compound growth.

Over the last 20 years, an investment in this $150.8 billion bank has returned 1,345.47%, including the reinvestment of dividends. Imagine your $10,000 capital growing to $144,547 in two decades!

Apart from being a banking leader, RBC holds the distinction of paying dividends for 150 years. You can be financially secure by owning high-quality stocks within a powerful investment tool like the TFSA.

Tax-free earnings

Another reason to stop hoarding cash in your TFSA is the potential to earn tax-free income. The only time you will incur tax penalty is if you over contribute or violate specific rules. Otherwise, all earnings are tax-free nearly 100% of the time.

A dividend titan like **Bridgemarq** (TSX:BRE) is the best fit for the TFSA. This small-cap stock pays a juicy dividend of 9%. Any amount you invest in the stock will double in eight years, and you can withdraw the capital plus gains without tax consequences.

Bridgemarq provides services to real estate brokers and realtors in Canada. This $142.83 million company derives stable cash flow (service fees and franchise royalties) from the 18,000-strong nationwide network of realtors.

The famous brand names in the real estate sector like the Royal LePage, Via Capitale, and the Johnston & Daniel banner are under the Bridgemarq umbrella. With Canada's housing market expecting a turnaround this year, the higher demand for Bridgmarq's services should follow.

Use your TFSA smartly

You can expect the rise of TFSA users to continue in 2020. Using the account for savings alone will become a thing of the past. Both old and young Canadians are enjoying the liquidity and tax-free benefits.

You can contain the risks by avoiding high-risk or speculative investments. You have the option of diversifying by investing in Royal Bank of Canada and Bridgemarq — or any other companies with clear-cut business objectives and growth potentials.

The trend in the new decade is to maximize the beauty of the TFSA and use it smartly to safeguard your financial future.

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TICKERS GLOBAL

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2. TSX:BRE (Bridgemarq Real Estate Services Inc.)
3. TSX:RY (Royal Bank of Canada)

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