TFSA Investors: A Dangerous TFSA Mistake Millennials Must Avoid!

Description

If you're a millennial, the best thing you can do for your Tax-Free Savings Account (TFSA) is to forget about trying to emulate the investment strategy of your parents. The Baby Boomer and Gen X cohorts can't afford to take on the same degree of risk, as their ability to take risks has diminished with age, and given the rock-bottom interest rate environment, it's still not worthwhile for millennials to be overly cautious with their portfolios.

While unsolicited investment advice from your parents may be with the best of intentions, they may actually be detrimental to your wealth creation over the long term. As such, I'd urge millennials to consider investing in growth stocks and to forget about debt instruments or waiting for the next crash before getting started investing — two common mistakes that are far more insidious than they sound.

Millennials are too young to be investing like Boomers. And although millennials' willingness to take on more risk may be low (perhaps lower than their parents, because they graduated into one of the worst recessions in recent memory), their ability to take on said risks remains high. While increasing one's willingness to take on risk is hard, it is possible for those who strive to gain a better understanding of the world of investing.

You see, as humans, we fear the unknown. But by proactively seeking to further one's knowledge, the magnitude of fear and uncertainty with regards to investing will peel away like the layers of an onion over time. Because you're here at the Motley Fool, you've already begun the process of peeling the onion and are on the fast track to increasing your natural willingness to take on risk.

Back to bonds. As I mentioned in the opening paragraph, bond yields are absurdly low such that they no longer can offer a satisfactory return, even for some older investors. Simply put, you're not going to make enough money if you're overweighting bonds as a younger investor.

While it's not a crime to be a bit cautious, given we're in the late stages of an 11-year-old bull market, it's important to remember that by hoarding "risk-free" investments (or investments that are free from downside risk), one takes on upside risk (the risk of missing out on substantial upside). Hoarding cash and low-return debt securities or GICs come at an unfathomably high opportunity cost.

It's this opportunity cost that's been discounted by overly cautious investors and may wrongfully be disguised as prudence.

The goal of many millennials should be to get one's willingness to take on risk at the same level as their ability. Now, that doesn't mean jumping into white-hot growth stocks like **Shopify** off the bat. The volatility in such a name is excessive and is an extreme example.

For those who see themselves being kept up all night about when to sell the name, there's zero shame in betting on "bond proxy" stocks like **Fortis** (TSX:FTS)(NYSE:FTS).

With a 3.3% dividend yield that's growing at a mid-single-digit rate every single year, Fortis is a terrific way to get superior risk-adjusted returns over prolonged periods of time. With a recession or two thrown in, Fortis will still crush the TSX Index and deliver total returns that would put bonds to complete shame!

Heck, the dividend on its own, which can be thought of as a growing perpetuity, is pretty much guaranteed to beat most run-of-the-mill short-term government bond funds, even if interest rates were to continue on downtrending!

The 3.3% yield may not mean much on the surface, but over prolonged periods of time, the 5-6% annual dividend hikes do make a difference. And while Fortis isn't a "risk-free" asset like bonds and GICs, given the insidious effects of inflation, I'd argue that Fortis stock is less risky when taking into consideration the high opportunity costs that come with risk-free assets.

Sure, bonds are risk-free, but if we're also talking about upside risk, they're really not. As Warren Buffett once suggested, bonds really should come with a warning label!

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