



Like Diamonds, TFSA Losses Are Forever, So Invest Wisely in 2020

Description

The quality of the Tax-Free Savings Account (TFSA) as an investment vehicle is as rare as a diamond. Diamonds are forever — and so are the losses in your TFSA. You have to therefore be careful with the investments you place in your TFSA. Should a recession come in 2020, the losses you will incur are permanent.

By having a TFSA, your money can grow tax-free, compound over time, and secure your financial future. Keep in mind that [TFSA's magic works only with quality investments](#).

Speculative investment

Let's take, for example, a popular weed stock like **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC). In 2018, the hype over an impending marijuana boom resulted in a buying frenzy. Some must have placed Canopy in their TFSAs in hopes of a lucrative tax-free payoff.

Investors who bought WEED at the start of 2018 and sold the shares on October 15, 2018, made a killing. From \$32.37, the price soared 127.83% to \$73.75. Had you picked up the stock in mid-October of the same year then placed in your TFSA, your losses today stand at 57.36%.

After the legalization of marijuana in October 2018, it was [all downhill for the industry leader](#). The Canopy board fired former CEO and Founder Bruce Linton due to mounting losses. The cannabis producer's larger-than-expected losses brought down the earnings of significant stakeholder Constellation Brands.

Cannabis stocks, including Canopy Growth, turned out to be duds. While the TFSA room expands as the value of your portfolio grows, it shrinks when you lose money on speculative investments. The losses are non-recoverable, erasing some of your contribution room permanently.

Recession-free investment

If you want to protect your capital from a recession, your logical choice is a utility stock like **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)). This \$26.85 billion company is the undisputed king in the sector. For 46 years, Fortis has been increasing dividends. At present, the stock pays a 3.26% dividend.

Had you invested \$30,000 in Fortis 10 years ago, the stock would have returned 204.23%, including reinvestment of dividends. Your money would be worth \$91,269 today.

Assuming you've been maxing out your TFSA since 2009 until 2019 and you decide to withdraw the entire amount, you can start another round of wealth building. The accumulated contribution room is \$69,500, with the \$6,000 annual contribution limit for 2020.

You can make Fortis a core holding and keep it as long as you want because of its bond-like features. Aside from the stable income stream, this top-tier utility stock is a defense against market uncertainties. Nearly 100% of profits come from a diversified regulated-utility asset base covered by long-term contracts.

Rare quality

The TFSA is not a basket for rotten eggs or risky investments, however. Your losses can be permanent, and as the TFSA is tax free, you can't claim a capital loss. Only low-risk and income-producing stocks like Fortis will enable your money to grow to up a million dollars or more.

Fortis and other stocks in the utility sector have a history of performance, while the Canopy Growth and its peers in the cannabis industry have none. The TFSA has a rare quality like a diamond. Use it with utmost care.

CATEGORY

1. Cannabis Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NYSE:FTS (Fortis Inc.)
3. TSX:FTS (Fortis Inc.)
4. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Dividend Stocks
3. Investing

Date

2025/08/19

Date Created

2020/02/07

Author

cliew

default watermark

default watermark