TFSA Investors: Don’t Ruin Your TFSA With These 2 Bad Money Habits

Description

People develop habits that are so hard to break, and this applies to the Tax-Free Savings Account (TFSA). It’s easy to slip into two bad money habits that could ruin your TFSA. If you can’t stop them, the result can be costly.

Frequent buying and selling

The TFSA is not the avenue for stock trading. You are prohibited from buying and selling stocks within your TFSA. There is a risk of losing your tax-exempt status when you’re impatient and chasing a quick buck. Furthermore, the Canada Revenue Agency (CRA) will be at your back to penalize you and declare gains as taxable business income.

Stick to the very purpose of the TFSA. At the onset, choose assets for the long term. You can grow money over time without having to trade frequently.

Even if bank stocks are moving sideways lately, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is a logical principal bank holding for TFSA investors. I can name three compelling reasons to invest in CIBC.

First, it has a dividend track record of 152 years. Second, this bank pays the highest dividend (5.34%) among the Big Five in the industry. Third, the payout ratio never goes beyond the range of 50-60%. CIBC has plenty of money to reinvest in the business or increase dividend payments in the future.

Some investors, however, are a bit cautious. Aside from the increasing loan-loss provisions, the bank will be implementing layoffs in the coming months. Management sees the need to be more service efficient and cost conscious to overcome a challenging environment.

The good news is that CIBC’s efficiency ratio (non-interest expense as a percentage of revenue) is down to 55.5% in 2019, coming from 60.4% back in 2014. With better efficiency, CIBC should be growing at an average of 3.19% over the next five years.

Holding cash and making nothing

You won't see your money grow and earn a significant amount of tax-free income if you keep holding cash but not investing. Let's assume you have maxed out your TFSA contribution room and have $69,500 cash in your account.

You can still maintain a low-risk profile and invest in a defensive stock like **Parkland Fuel** (TSX:PKI). With its 2.62% dividend, your cash will grow by $1,892.20 yearly. All gains are tax-free, too.

Although the business of Parkland is fully developed, there's plenty of room for growth. This $6.94 billion company recently won the exclusive rights to distribute Chevron-branded fuels. About 1,855 gas stations and convenience stores make up its retail segment.

Parkland's commercial segment takes care of bulk fuel, propane, heating oil, lubricants, agricultural inputs, oilfield fluids, and other related products or services intended for commercial, industrial, and residential customers in various industries.

You can't get a more defensive stock than Parkland. You're investing in a very stable business that can withstand an economic downturn. With more than four decades of operations, the business can still go on for more than a century.

Lose everything

The TFSA is an account where you can grow your money with stocks like CIBC and Parkland Fuel. But if you insist on keeping bad habits, you lose out on everything the TFSA has to offer.

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1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:PKI (Parkland Fuel Corporation)

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