



TFSA Investor Warning: Always Use This Proven Retirement Hack

Description

TFSA holders are the smartest savers in Canada. These investors didn't pass up the chance to permanently shield their capital from taxes.

Are you a TFSA holder? Congratulations, but don't believe that your work is finished.

Once you're armed with a TFSA, it's important that you maximize the benefits. Understanding how to optimize your account will ensure that you enjoy a [comfortable retirement](#), perhaps even a few years earlier than expected.

The best TFSA hack of all is perhaps the most simple. All you need to do is spend a few minutes preparing, and the rest is *automatic*.

Automate your contributions

How do you currently fund your TFSA? The answer to this question is just as important as which stocks you invest in. In fact, it's *more* important.

If you're like most Canadians, you have a fairly irregular contribution schedule. You may go months between deposits. This is a huge mistake.

Let's say you save \$100 per month earning a 10% rate of return. After 30 years, you'll wind up with around \$215,000. But what if you skipped every other month? Maybe you redirected the sum to another expense, or most likely, you simply forgot. In this case, you'd only end up with \$105,000.

In the first scenario, your deposits total \$36,000. In the second, they total \$18,000. Yet the difference in final value is more than \$100,000! This illustration is why *consistent* saving is critical.

How do you make your contributions more consistent? Simple: you automate them.

Almost every TFSA allows for automatic contributions. As the name suggests, this automatically

transfers a set sum of money into your account on a regular basis, say \$100 per week, or \$500 every month.

It doesn't matter how much you deposit or how frequently your deposits occur; the most important thing is to get these transfers established. Once automated contributions are in motion, it's a breeze to increase the amount or frequency.

This all seems stupidly simple, doesn't it? That's exactly the problem. The seeming ease of automated contributions is the reason why so few Canadians establish them in the first place. Yet behavioural science shows us that they can be your best weapon to achieve financial stability.

Researchers have unfounded a specific human trait called the *default option*. This is the choice that you'll choose if you choose nothing at all. For example, if I give you a ham sandwich and tell you to inform me if you want to swap for a turkey sandwich, the default option is the chicken sandwich, as that's what you get if you stand pat.

Studies show that humans are overwhelmingly primed to "pick" the default option. Unsurprisingly, we're pretty lazy creatures.

If you don't have automatic contributions established, your default option is to *not* save, as that requires regular effort. Once they're established, however, you need to actively *stop* the transfer from occurring. Your default option becomes saving. With this simple move, your likelihood of contributing to your TFSA on a consistent basis skyrockets.

Of course, there's more to TFSA success than contributions. Picking wealth-generating stocks can also add significant upside to your portfolio. Yet it takes money to make money, and automated contributions are a proven secret to accumulating long-term TFSA wealth.

CATEGORY

1. Investing

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/08/27

Date Created

2020/02/12

Author

rvanzo

default watermark