TFSA Investor Basics: Dividend or Growth Stocks?

Description

TFSAs are the best way to accrue long-term wealth without paying any taxes. Whether it’s through dividends or capital gains, your money will be protected from the government.

But what is the best way to invest your TFSA funds?

Many experts recommend dividend stocks, because they allow you to build a tax-free stream of permanent income. Others prefer growth stocks, for the tax savings can be much larger.

Here’s how to decide between dividend stocks and growth stocks.

Determine your goals

As with any investing strategy, the first step is to determine what your goals are. Determining your strategy *before* your goals is unlikely to produce satisfactory results.

How do you determine your investing goals? There are a few basic questions to ask yourself.

How old are you? This is perhaps the most important question. That’s because it directly informs other considerations, including how much risk you can take, how much growth or income you need, and when you plan to stop saving.

Take an honest look at your situation and figure out how you want your portfolio to work for you.

How to invest

If you plan to keep investing for a decade or longer, you should be willing to take some extra risk. That’s because over several years or more, most volatility is smoothed out. With the ability to take extra risk and enough time to ride out swings along the way, the answer should be clear: growth stocks.

For more than a decade, market indexes have been powered by high-growth investments like **Shopify**, **Constellation Software**

, and **Netflix**. Each of the aforementioned stocks have double, tripled, or even quadrupled in value over the last five years. The lucrative upside of tech companies like this cannot be understated.

Just note that these stocks rarely pay a dividend, and their stock prices can be extremely volatile. Swings of 30% or more are fairly typical. With nose-bleed valuations, it doesn't take much to impact shares, but few other companies have the ability to compound investor capital by 20% or more each year for another decade.

If you can stomach the risk, use your TFSA to invest in growth stocks and keep 100% of your gains tax free. There's simply no better way to maximize your tax savings potential.

When should you choose dividend stocks? Income-generating investments should be at the top of your list if you're already retired, unwilling to handle short-term volatility, or are unsure of when you'll ultimately need the money.

Consider some excellent dividend stocks like **Enbridge**, **Chemtrade Logistics Income Fund**, and **Brookfield Renewable Partners**. These investments offer dividends between 4% and 12%. Those yields easily surpass what you can get with most bank accounts or bond funds.

Each of the stocks above have provided reliable, consistent dividend payments for more than a decade, always in cash. On average, their volatility has been significantly less than the growth stocks mentioned earlier.

An underappreciated aspect of dividend stocks is that you have complete control over the income. Dividend payments can be used to support your lifestyle, make charitable donations, or buy *even more* stock, boosting your long-term income potential.

Many investors opt for a balanced approach, buying both dividend *and* growth stocks. That may align with your investing goals, but don't be afraid to pursue one strategy over another if an all-in approach meets your needs. Either way, don't stop saving with your TFSA.

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