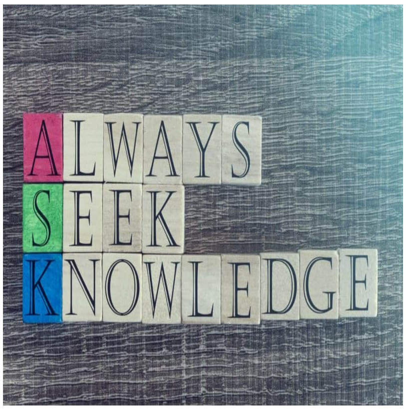

TFSA Investors: 3 Dos and Don’ts to Never Forget

Description

When it comes to investing, there are endless tips and tricks to learn that will better improve your decision making and therefore improve your long-term success.

A lot of these tips will be natural things investors learn through different experiences, and without experiencing them yourself, you may not learn them until it’s too late.

Gaining as much knowledge as possible will always be important, as not only it will allow you to select better investments, improving your returns, but it will allow you to avoid crucial mistakes, which can be an even bigger detractor for your long-term success than a low growth rate.

Without further ado, here are the three most important dos and don’ts for TFSA Investors.

Dos

Do save and invest your money as soon as possible. The best investing strategy is to use compound interest to grow your portfolio over the long term, and the longer you invest your money, the more significant the total will be when you’re done.

For example, an investor who saves $5,000 a year and earns a 7% interest rate for 35 years will have a total of roughly $691,000 at the end of the 35 years.

However, if this same investor left their money invested for just one more year and saved just $5,000 more, their investments would have been worth $744,000 — a difference of $53,000 in just one year.

Each additional year that amount would naturally grow, and if you were able to earn a higher annual return each year, it would have been more pronounced as well.

That leads to the second point: do look at the company you are buying rather than the stock.

If you are buying a company long term, the business’s operations, management team, and industry are far more important than the price of the stock.

Take **Brookfield Asset Management** for example. If you buy the company knowing you are going to own it for 25 years, there's almost no chance it will lose you money; in fact, it will likely outperform most other businesses over that time, so its stock price today is almost completely irrelevant.

Lastly, do calculate the earnings potential of a company with a conservative bias. It's far better to have a surprise to the upside than a surprise to the downside, so when estimating how you think a company can grow and earn in the future, make a more conservative estimate; it will help you make better investment decisions and help to protect your capital.

Don'ts

Don't make impulsive investment decisions, whether it be buying or selling. Instead, have a long-term plan with certain price targets to buy or sell that you only change as you receive new information that affects your valuation of the company.

Don't over-invest in one single stock. Most investors know the old adage of not to put all your eggs in one basket, but even if you are diversifying your money, having too much exposed in one stock could prove devastating.

Instead, have a group of the best and most reliable stocks making up the core portion of your portfolio, and use the remaining portion to find higher-growth stocks.

Lastly, don't hold too much cash. While holding cash can be important to have funds available for any future opportunities that present themselves, holding too much cash will be a drag on your portfolio.

In addition to weighing on the full potential of your portfolio, cash is also losing value each year due to inflation, so holding too much cash for too long can be a huge detractor from your long-term goals.

Bottom line

With experience, you will learn a lot more investing tips and tricks to keep in the back of your mind when making investment decisions, but for now, these are some of the most important pieces of advice to never forget, if you want to be as successful as possible in your long-term investing journey.

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