TFSA Investors: Don’t Make This 1 Costly Mistake!

Description

It’s rarely a bad idea to put money into a Tax-Free Savings Account (TFSA) as it can help you accumulate wealth. Any dividends on eligible investments are also tax-free inside the account. Even capital gains aren’t taxable.

But that doesn’t mean everyone should be rushing out to contribute to a TFSA.

When you shouldn’t be putting money into a TFSA

There are several good reasons to invest and hold stocks in a TFSA. But there’s one important reason not to: you can’t afford to. A recent report by **Equifax** said that average consumer debt is up in Canada, again. The average Canadian owes $72,950. Average non-mortgage debt, including credit cards and lines of credits, is $23,800. **Manulife** released a study in November that said 40% of indebted Canadians don’t expect to get out of debt – ever.

Credit card debt can cost around 20% in interest. And it’s safe to say that earning 20% in the stock market would be quite the feat. That’s especially true today as we’re seeing a lot more volatility and bearishness than usual. If the interest rate you’re paying is higher than the percentage you’re making from your investments, then you’re not making the most of your money. You’d be better off paying off that debt first before investing in stocks.

Until you’re free of debt, you should hold off on investing in a TFSA or any other savings account. It doesn’t do a whole lot of good to make 1% or 2% in savings when you’re paying 10 times that amount in interest on debt that you owe. As tempting as it may be to investing in high-flying tech stocks like **Amazon** or **Shopify**, earning a high return is never a guarantee. And without a guarantee, a dollar spent on paying down debt will go a lot further than a dollar spent on investing.

Investing in stocks can quickly put you in debt, too

If you’re at the stage where you’re debt-free, it’s important to not be over-aggressive with your investments, either. You can just as easily pile up losses from stocks as you can incur debt from credit cards. That's where investing in exchange-traded funds (ETFs) can be a great way to minimize risk. The **BMO Nasdaq 100 Equity Hedged to CAD Index ETF** (TSX:ZQQ) can be a solid choice if you love tech. The ETF holds **Apple**, **Microsoft**, **Alphabet**, and many other top NASDAQ stocks.

It's a great way to benefit from the markets when they inevitably recover. And without significant exposure to an individual stock, you're diversifying and not putting your portfolio at much risk. Over the past five years, the ETF has actually outperformed the NASDAQ. It's up around 90% while the NASDAQ has risen around 75%. The ETF closely follows the NASDAQ and as long as the markets rise over the long term, it'll remain a safe investment.

However, given how unstable the markets are of late, you may want to hold off investing in the fund until the markets settle down and show a lot more consistency.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ZQQ (Bmo Nasdaq 100 Equity Hedged To Cad Index ETF)

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