TFSA Investing: Beware of What Income Is Still Taxable

Description

Over the last month, the stock market has been extremely volatile. The massive market crash has created major opportunities, especially for TFSA investing.

Volatility tends to increase when there is fear in markets; however, the degree of volatility this time around has been extreme.

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Stock market indices moving up or down 5% or 10% in a day is significant. But to continuously do it over and over again is very rare.

The rapid movement in stocks may start to entice investors to try and time the market and trade stocks.

Maybe you bought a stock low last week and can already sell it for a 50% gain. And maybe you figure that markets are likely to fall again, so you could probably just buy the stock all over again in a week from now.

That impulse can be very dangerous for investors, as trading and buying or selling stocks based on speculation can be a slippery slope.

Even the best traders have trouble continually performing over the long run, which is why trading stocks is not recommended.

What's even more worrisome, if you are doing this in your TFSA, is that the CRA could come after you with major penalties.

TFSA tax trouble

TFSAs are great for investors. They are perfect for saving and growing your money.

One thing that is prohibited, however, is continually trading stocks in your TFSA. The CRA will go after investors if they catch people rapidly buying and selling stocks in a TFSA.

TFSAs were created for Canadians to invest, not trade. This means employing a long-term investing strategy. Investors should be buying stocks only to hold for the long run.

One of the main rules of TFSAs is, no business activity. And the CRA deems trading stocks to be a business activity.

The consequences could be devastating, as you could be on the hook for thousands of dollars of gains.

Long-term TFSA investing strategies

Although the markets are highly volatile right now, investors should ignore the noise and focus on the long-term prospects of businesses.

This is one of the best times in years for long-term investors to buy stocks and set their portfolios up for the next big bull run.

For example, right now, investors can buy a high-quality stock like **Sleep Country Canada Holdings** (TSX:ZZZ).

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Sleep Country is a mattress retailer and one of the best-known brands in Canada. While retail companies have to deal with short-term store closures, that shouldn't matter to long-term investors.

As long as the business isn't vulnerable with high debt loads, then these short-term headwinds shouldn't matter to investors.

Sleep Country, as of midday Friday, was down roughly 60% from its highs. The stock has recovered slightly but is only up about 6% from its lows.

This still gives the stock considerable value. It currently trades at just 6.1 times its trailing 2019 earnings. In addition, its dividend yields upwards of 8.5%.

Bottom line

Buying a stock like Sleep Country for just 6.1 times its trailing earnings and a dividend yield over 8.5% is a steal. And there are many more high-quality deals like this.

Instead of taking on high risk and trying to trade and time markets, use your TFSA to buy top long-term investments like Sleep Country.

It's the best long-term strategy and the easiest to employ.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ZZZ (Sleep Country Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
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