TFSA Investors: 57% of You Are Making This Big Mistake!

Description

According to a survey conducted by **Royal Bank of Canada**, about 42% of TFSA holders use it only as a savings account and stash cash in it, while 15% of TFSAs are used for holding GICs. Holding GICs isn't as bad as simply using it to stash cash, but it's certainly not helping your TFSA live up to its full potential.

TFSA is a powerful tool if used properly. Even if you stay far away from risky growth stocks and invest primarily in safe stocks and blue-chip companies, the returns are likely to come out better than GICs and significantly better than cash. Even if your portfolio suffers some losses along the way, the returns from investing in stocks are likely to be better than sticking with cash and GICs.

Let's compare the returns for three long-standing Dividend Aristocrats with the returns of GICs. For reference, one of the best TFSA GIC rates that you can find is about 2.5% on seven-year terms. If you start with a capital of $21,000 and you lock it in a GIC that pays you 2.5% in seven years, your returns in 21 years (three GIC terms) will be about $35,250. Let's try with the same capital in three aristocrats.

A problem-solving aristocrat

Thomson Reuters (TSX:TRI)(NYSE:TRI), or the "answer company," has been around for two centuries. It started as a publishing company in 1799 in London. It's technically a merger of two companies, one U.K. based and the other Canadian. Its roots are in media, but it has expanded its reach into a lot of different territories, primarily consultation and problem-solving in different spheres.

Thomson Reuters has a market capitalization of $45.5 billion and just $4.1 billion of debt. The company offers a decent return on equity of 18.1%. It's also a very old aristocrat, with 26 years of dividend increases under its belt. Currently, it's offering a yield of 2.2% and a discount of about 15% of its pre-crash value. Its 10-year CAGR is about 11.56%.

If you invest $7,000 (one-third of the total $21,000 capital) at 11.5% growth per year, it will give you about $69,000 in 21 years.

A telecom aristocrat

In Canada, telecom giants enjoy a well-established oligopoly, and **Telus** (TSX:T)(NYSE:TU) is one of those giants. It has a market cap of about $29.3 billion. The company has been an aristocrat for about 16 years, and thanks to its current low valuation, it's offering a juicy yield of about 5%. As primarily a telecom company, Telus has also extended its reach into the internet and TV. As for mobile phones, it has one of the largest subscriber bases in the country.

Telus has a healthy balance sheet and a decent return on equity of 14.5%. With a price to earnings of 18 times, the stock isn't as oversold as many other growth stocks. The company's recent growth is paltry compared to the whole 10-year picture, with a CAGR of about 13.15%, which is enough growth rate to propel a $7,000 to about $93,000 in 21 years.

A financial aristocrat

Intact Financial (TSX:IFC) is the country's largest property and casualty insurance provider. The corporation has six different subsidiaries, through which it operates in North America. The company has been increasing its dividends for 15 consecutive years, and currently offers a yield of 2.5%.

Its growth has been very consistent for the past decade, with a 10-year CAGR equating to about 14.4%. At this rate, the company can grow your $7,000 seed into $118,000 in about 21 years.

Foolish takeaway

These three are reliable blue-chip, large-cap companies that have increased dividends even through the past recession. At the growth rates they are offering, even if only one out of three companies pay off, you will still be better off after 21 years than you would have been with the GIC.

And not just better … even the worst performing of the bunch is likely to grow your capital to over double what you would get with a GIC, and that's without the dividends.

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3. TSX:IFC (Intact Financial Corporation)
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