TFSA Investors: Avoid These 2 Mistakes to Maximize Your Tax-Free Gains

Description

The Tax-Free Savings Account (TFSA) is among the top investment vehicles to create long-term wealth and add padding to your retirement fund. Any capital gains, dividends, and interests earned in TFSA are not taxable. However, the CRA sets the maximum contribution limit each year.

While the CRA has set the TFSA contribution limit to $6,000 in 2020, you can contribute $69,500 today if you've never contributed or opened a TFSA before.

The TFSA is designed to build wealth, but slip-ups are common, which acts as a barrier in maximizing your gains. Two such common mistakes investors should avoid are holding cash in a TFSA and concentrating only on few stocks.

Investors shouldn't treat TFSA as a savings account at all. Holding excessive cash in your TFSA is likely to badly hurt your long-term savings goal, as the interest earned on idle cash is very low. Besides, you're losing out on the sizeable amount of tax-free investments.

While holding cash in a TFSA is a waste, concentrating on only a few stocks can prove detrimental in the long run. Instead, investors should diversify their TFSA portfolio with a mix of growth, income, and defensive TSX stocks to reduce risk and maximize gains.

Here are my top TSX stock picks that should be part of your TFSA portfolio.

Top growth stocks

When it comes to growth, nothing beats tech stocks. **Shopify** and **Kinaxis** are the top two tech stocks that you should buy and hold for decades. Both Shopify and Kinaxis have performed exceptionally well over the past several years, making investors rich.

For those who don't know, Shopify has surged over 3,669% in five years. Besides, Kinaxis stock has grown over 616% during the same period. Moreover, the rally in both these stocks is far from over. Both Shopify and Kinaxis have ample growth catalysts that should continue to drive their shares higher in the long run.

Best income stocks

While Shopify and Kinaxis are likely to fuel growth, investing in shares of **Fortis** and **Brookfield Renewable Partners** (can help in earning steady and safe yields. Their regulated and contracted assets help in generating predictable cash flows that continue to grow.

Fortis has raised its dividends for 46 years straight. It offers a decent dividend yield of 3.7%. The company projects its utility rate base to grow at a healthy pace over the next decade, while its dividends are forecasted to increase at an annual rate of 6% in the coming years.

Brookfield Renewable Partners has increased its dividends by 6% annually in the last 20 consecutive years. Meanwhile, it expects to increase it by 5-9% annually in the coming years. The company offers a forward yield of 4.5% and benefits from the growing demand for renewable energy and long-term power-purchase contracts.

Top defensive bets

Owning consumer staples stocks should make your portfolio less susceptible to the large market swings and protect against economic downturns. **Metro** and **Alimentation Couche-Tard** are the best defensive plays.

Both these companies continue to witness steady demand for their products and should continue to chug along nicely, thanks to their extensive store network and expansion of e-commerce offerings.

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