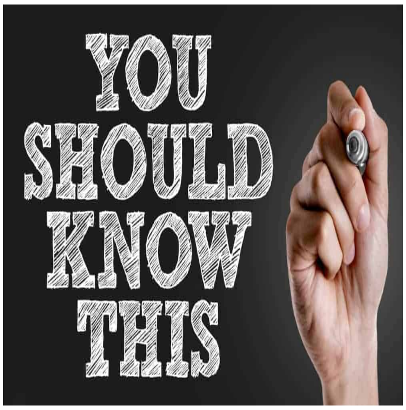

TFSA Holders: Avoid This Mistake Which Impacts Close to 60% of Investors

Description

The TFSA (Tax-Free Savings Account) is a registered account that is hugely popular among Canadians. As the name suggests, the TFSA can be used for a variety of investments, and these investments can be withdrawn without paying taxes to the CRA. The TFSA was introduced back in 2009, and Canadians eligible to contribute to this account since its inception can allocate up to $69,500 to it.

Due to its flexible nature and tax-free withdrawals, the TFSA is ideal to hold dividend-paying stocks that provide a stable stream of recurring income as well as the possibility to increase wealth via long-term capital gains.

However, according to a **Royal Bank of Canada** survey, approximately 42% of TFSA holders use it as a savings account and allocate cash in it, while close to 15% use it to hold GICs (guaranteed investment certificate). While holding GICs in a TFSA is not as bad as using it to stash cash, we can see that a majority of Canadians are still not maximizing the potential of the account.

TFSAs can be used to create massive wealth over time, especially if you invest in growth companies such as **Shopify**. For example, if you invested in Shopify's IPO back in May 2015, you would have returned 6,250% since then. This means a $6,000 investment in Shopify stock would have ballooned to $375,000 in just over five years.

However, if you are nearing retirement and have a lower risk appetite, you can invest in safe blue-chip companies that will also generate outsized returns compared to GICs. For example, one of the best GIC rates right now pays 2.5% on seven-year terms. So, if you allocate $20,000 in this GIC, your investment will increase close to $25,000 at the end of 10 years.

Why stocks such as TC Energy are good TFSA investments

TC Energy (TSX:TRP)(NYSE:TRP) is a Canadian energy infrastructure giant with over $100 billion in assets. The company has a forward yield of 5.1% This means a $20,000 investment in the stock will pay close to $1,020 in annual dividends. TC Energy expects to increase dividends between 8% and

10% in 2021 and at an annual rate of between 5% and 7% post-2021.

So, if we assume a 6% increase in annual dividends, TC Energy investors will generate over $13,400 in cumulative dividends over the course of 10 years. TC Energy stock is also trading at $63.35, which is 17% below its 52-week high. This means investors will benefit from capital appreciation too when markets rebound.

TC Energy is a solid long-term bet. Despite a weak macro environment and volatile crude oil prices, the company's EBITDA in Q2 stood at $2.2 billion, a decline of 5.4% year over year. Its funds from operations fell by 7.1% to $1.54 billion, while cash flow per share was down 8.3% at $1.65.

This meant TC Energy's dividend-payout ratio rose by 16.7% to 49% in Q2, which is still reasonable making a dividend cut highly unlikely. TC Energy forecasts to spend $43 billion in capital expenditures to support expansion plans and drive top-line growth in the upcoming decade.

We can see the benefits of investing in a top Canadian stock that continues to increase dividends amid falling interest rates. Quality dividend-paying stocks can triple your capital compared to a GIC over a 10-year period, and this is without allocating for capital gains.

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1. Dividend Stocks
2. Energy Stocks
3. Investing

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