33% of Canadians Made This TFSA and RRSP Mistake

Description

Investing is a wealth-building tool that can help you unlock financial freedom to gradually live your life free of worries. However, it is a complex task, considering the constantly changing global dynamics and economic conditions. When you are allocating your wealth into a portfolio of assets, it is essential to minimize your risks.

The Canadian government offers various types of accounts to encourage Canadians to save more money and practice better saving habits. The Tax-Free Savings Account (TFSA) and the Registered Retirement Savings Plan (RRSP) are two excellent and popular examples to this end. However, many Canadians make mistakes when it comes to handling their assets in these accounts when the economic landscape shifts.

I will discuss the mistake that many Canadians are making when it comes to their TFSAs and RRSPs that you should avoid.

TFSA and RRSP mistake

The COVID-19 pandemic truly shook the world to its core in every way. Beyond endangering the health of millions, the novel coronavirus also affected global economies. The government was providing Canadians with relief through various measures in its COVID-19 response plan. As economies gradually reopen, the government is urging people to start looking for jobs.

However, around a third of Canadians are making the mistake of using money they stored in their TFSAs or RRSPs to help pay their bills. These two account types are financial vehicles you should use for long-term capital growth. Dipping into the funds you saved in these two accounts can drastically deteriorate your retirement nest egg's potential value.

Instead of taking out your money from your TFSA or RRSP, you should focus on using these accounts to hold onto assets that can grow over the long run.

Asset to hold in a TFSA or RRSP

You can store a variety of assets worth the monetary amount of the maximum contribution limit in these accounts to enjoy tax-deferred (in an RRSP) or tax-free (in a TFSA) growth. Once you store any asset in these accounts, the government will not charge income tax on the revenue it generates. If you store the right asset, it can provide you with substantial long-term growth of your wealth.

An ideal long-term asset to consider to this end can be the **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stock. Toronto-Dominion is a reliable dividend-paying stock from one of the most significant financial institutions in the country. The bank has a track record of paying its shareholders dividends for 163 years.

It means that the stock continued paying its investors through two world wars, a global pandemic, and several financial crises before the one we're facing right now. The $112.43 billion market capitalization bank ranks among the biggest banks in the world. TD has taken a beating amid the pandemic. It is trading for an almost 18% discount from its February 2020 peak.

At its price of $62.26 per share, TD is paying its shareholders at a juicy 5.07% dividend yield. If you use some of the contribution room in your TFSA or RRSP to allocate to TD stocks, you can rely on its capital gains and dividends to substantially grow your wealth in the coming decades.

Foolish takeaway

It might feel tempting to take out funds from your retirement accounts to pay the bills you have right now. I would strongly recommend that you consider any other options to cover your living expenses. While you may get short-term spending money by dipping into your savings, you can drastically reduce the power of compounding when it comes to growing your wealth. Consider investing in a stock like TD and holding it in your TFSA or RRSP without taking it out.

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