Half of Canadian Millennials Are Making This TFSA Mistake

### Description

Millennials have arguably had it the worst of any generation since the Great Depression. This generation was born during a recession, graduated high school during another recession, and are now trying to start families and careers during yet another economic downturn. Add to that a pandemic, and even the Great Depression didn't have that to fight against.



On the one hand, it's true that millennials simply don't have the funds that many other generations had to work with. The average salary for 18- to 34-year-olds hasn't grown by more than $100 in the last *four decades*! However, just because you don't have a lot of money doesn't mean you can't invest.

In fact, while millennials don't have a large salary, they are great savers. The average millennial has about $20,000 set aside in savings! The problem? It's not being invested. And that's a huge issue. The Canadian government has the Tax-Free Savings Account (TFSA) around for a reason. If you have your money sitting in cash, that means it has to be claimed. If you have it in a TFSA, however, it's safe from taxes. So, instead of losing money to taxes, you could be making money through investing.

If you hear your father's voice in your head telling you investing is risky, he's not wrong. It just depends on the stock! Yeah, you probably don't want to take on massive risk during an economic downturn. Instead, do some research and find stock you're comfortable with.

## What about my debt?

Many millennials in Canada certainly have debt to blame for not investing. About 70% blamed debts, housing desires, and other financial priorities for not investing. Fair enough. In fact, millennials have a debt-to-income ratio of 216%! That means for every paycheque, millennials owe that cheque, plus another cheque, plus another 16% of the next cheque. That's 1.7 times more than Generation X and 2.7 times more than their baby boomer parents.

Another 60% blamed lack of investing education for not using their TFSA. And that's where this really makes me upset, to be honest. If millennials had the tools available, debt could be paid down, and quickly! Again, what you need is a plan of action and the right stocks.

First, take a look at your paycheque. Ideally, you should calculate exactly how much you can afford to put aside, but if you don't have time start off with somewhere between 5% and 10%. That's 5% to 10% of each pay cheque to go toward investing. You should also be doing this to pay off debt. Then you can either use the returns made on investment to help pay down debt each year or even just the dividends!

## What stock?

There has been a lot of hinting, but if millennials are looking for a safe stock that will grow for decades and that offers strong dividends, then the best choice right now is **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). CIBC might not be the best performer of the Big Six banks thanks to its focus on Canada, but it still has a lot of growing room. That's great news if you have time to wait for this bank to expand.

Meanwhile, you'll see steady growth from this stock for decades. During the last two decades, CIBC has a compound annual growth rate (CAGR) of 8.33%. On top of that, its dividend has a CAGR of 5.2% for that same time. Right now, you can bring in $5.84 per share per year from this stock. So, that would add up to about $1,134 in dividends each year if you invested that $20,000 in savings into your TFSA. That's a lot to pay down that debt!



An even more exciting option? If you're able to pay down debt through your cheques, consider reinvesting those funds back into CIBC. Based on the last two decades, you could turn that $20,000 into $226,487.65 in another two decades, and that's without taking the current downturn and subsequent rebound into consideration!

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**Date**
2025/08/28
**Date Created**
2020/09/19
**Author**
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