WARNING: Millions of Canadians Are Making This BIG TFSA Mistake in 2020

Description

This year has been one of the most tumultuous in modern history. That is owed almost entirely to the COVID-19 pandemic, which has swept across the globe and served as a destabilizing force socially, politically, and economically. It should come as no surprise that Canadians have erred on the side of extreme caution this year. However, I want to discuss why that is pushing them to make one huge mistake in their TFSA.

A recent report from **Canadian Imperial Bank of Commerce** revealed that Canadian households and businesses were holding on to more than $170 billion in excess cash. Households alone are sitting on $90 billion. That is equal to 4% of total consumer spending. Savings rates have shot up during the pandemic, as citizens have been forced to cancel many of their 2020 plans. However, many Canadian households are not putting that excess cash to use.

The CIBC report also said that the savings rates for Canadians has climbed to 13.6%. That is compared to 3.6% before the pandemic. This is one of the only silver linings during a brutal year. However, this increase in savings risks going to waste.

Why holding cash in your TFSA in 2020 has been a horrible idea

Around this time last year, I'd warned Canadians against making one huge TFSA mistake in 2020. That mistake? Holding cash in their TFSA rather than putting it to work for them.

The great benefit of the TFSA is its ability to offer capital growth and income to investors without being subjected to a capital gains tax. Even better, this account offers wonderful flexibility. Want to sell your stake and spend your tax-free gains and/or income? No problem. You can withdraw your TFSA funds without suffering a penalty.

Canadians have been understandably wary during 2020. The COVID-19 pandemic has devastated Canada's economy. It threatens to do more damage, as governments are ramping up restrictions as cases have climbed in October and November. Many are fearful of volatility in the stock market. However, there have been substantial gains on the TSX since the March market crash. Canadians sitting on cash from increased savings have missed out on massive capital-growth opportunities.

Consider spending your cash on these two stocks today

Instead of storing that cash in your TFSA, Canadians should be on the hunt for quality stocks. Back in September, I'd suggested **WELL Health**. Its shares have climbed 40% over the past three months.

Manulife (TSX:MFC)(NYSE:MFC) remains one of my favourite targets for a TFSA. This is one of the largest insurance providers and financial services companies in the country. Its shares have dropped 13% in 2020. However, the stock is up 10% in a three-month span.

Shares of Manulife last possessed a price-to-earnings ratio of 8.2 and a price-to-book value of 0.8. That puts this stock in very attractive value territory. Moreover, TFSA investors can feast on its quarterly dividend of $0.28 per share. That represents a strong 5.1% yield.

Sitting on a lot of cash in your TFSA? **Air Canada** is one stock to consider right now. Airlines have been pummeled during the pandemic but shares of Air Canada and its peers surged on promising vaccine news from **Pfizer** and **Moderna**. Its shares have climbed 33% month over month as of close on November 17.

Air Canada was one of the strongest stocks on the TSX over the course of the 2010s. It began the decade on the brink, facing potential bankruptcy due to the global financial crisis. Good leadership has vastly improved its balance sheet, making it well suited to weather a new storm.

A $1,000 investment in Air Canada at the beginning of the 2010s would have been worth $37,800 as of close on December 31, 2019. Those are tax-free gains worth getting excited about in a TFSA.

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