
Where to Start Building Your TFSA Portfolio

### Description

The year 2020 upended the lives of untold thousands of people. The pandemic crisis reiterated the need for savings as many lost their jobs. If you are fairly new to investing and considering building your Tax-Free Savings Account (TFSA) portfolio, start from here.



The Canada Revenue Agency (CRA) is designed the TFSA to allow inventors to enjoy tax-free investment income. Those who understood the trick are currently sitting on thousands of dollars of tax-free investment income.

## TFSA investing

The CRA generally sets the TFSA contribution limit at $5,000, which you can reach by investing $100 a week. In 2020, it increased this limit to $6,000, which equates to $115 a week. The CRA allows you to invest in stocks trading on the **TSX** and U.S. stock exchanges, bonds, ETFs, and many other instruments. You can’t do intraday stock trading on TFSA.

You can maximize the tax benefit TFSA gives on investment income by putting your money in high-growth and high-dividend stocks.

## Start building your TFSA portfolio

It is always a good practice to watch and read about the stock before putting your hard-earned money in it. Think of it like ordering a new dish at a restaurant. You want to ensure it doesn’t contain ingredients you are allergic to, and it suits your taste. Hence, you learn about the ingredients and what type of taste – sweet, sour, spicy – you can expect before you place the order.

Similarly, a good way to start is by setting realistic expectations on the returns. For instance, Jake is a 20-year old student and has saved $5,000 from his part-time job in his TFSA. He wants to save up to repay his $8,000 student loan after three years.

Jake has set his goal. To earn $8,000 after three years, he needs to earn an average return of 17% every year. To earn such high returns, he needs a growth stock, but he is not willing to take high risks.

When you say growth stocks, technology is the first thing that comes to mind. And the best way to reduce risk is through diversification. A good start for Jake would be the **iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT).

## Technology ETF

The past decade saw the rise of technology. The world adopted smartphones, and physical books converted into digital libraries. The COVID-19 pandemic showed how deeply technology is woven into our daily lives. The next decade will see the growing adoption of cloud-based software services.

The XIT ETF gives you exposure to the top 18 tech stocks trading on the Toronto Stock Exchange. It has almost 50% of its holdings in **Shopify** and **Constellation Software**. As software stocks surge, so will the ETF. You get exposure to the price change of these 18 stocks at less than $50 per unit. In the last three years, the ETF surged at an average annual rate of 39%.

However, this growth rate is influenced by this year's 50% surge that was fuelled by the pandemic.

Even before the pandemic, the ETF surged at an average annual rate of 27.7% between 2016 and 2019. If the ETF's average annual growth rate slows to 20%, Jake's $5,000 TFSA contribution today will convert to $8,600 in three years.



## The smart investor

Summing up the entire process, Jake first made a realistic financial goal in dollar terms and in how many years he wants that money. He also set his risk to medium, which helped him streamline his stock search. He then read about the stocks he has streamlined and invested in those that matched his financial goal and risk-bearing capacity.

This is just the stepping stone to stock market investing. Moving ahead, add some stocks to your watch list and keep reading about them.

Follow some analysts and hedge fund investors and get fundamental and technical insights on the stock. And when you feel confident, build your balanced TFSA portfolio.

**CATEGORY**

1. Investing
2. Tech Stocks

**TICKERS GLOBAL**

1. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)

**PARTNER-FEEDS**

1. Business Insider
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