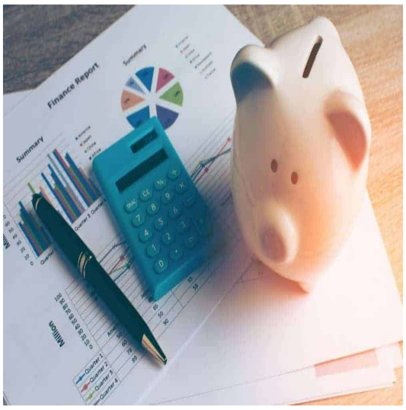

TFSA Investors: 53% of Canadians Are Making This Huge Mistake!

Description

Bank of Montreal recently conducted a survey, which revealed some encouraging and some shocking things about how Canadians were putting their TFSAs to use. The good news is that despite going through such a tough financial year, people are putting more money into their TFSAs. The average amount in TFSAs actually increased this year by about 9%.

This paints an encouraging picture, because in times of financial crises, people typically raid their savings to sustain themselves. And unlike RRSPs, which you can't withdraw money from without being penalized by the withholding tax, the TFSA funds are significantly easier to access.

But the survey revealed something else as well.

Underutilizing the TFSA

About 53% of survey respondents reported that they contributed the amount they were planning to. While that's a bit low from last year, when 58% of people met their contribution goals, it's not the shocking part. The shocking part is that only 49% of the survey respondents said that they are aware that the TFSA can hold something other than cash as well.

Only about half the people know that the TFSA can hold at least one other type of investment (apart from cash). It means that these people (and probably many more) are significantly underutilizing their TFSAs. 2% is probably the best TFSA interest rate you can get, and it barely helps you keep up with inflation.

Even if these people don't create or actively manage their investment portfolio, investing in a basic stock like **Fortis** can help them get significantly better returns.

Harnessing Your TFSA's potential

Using your TFSA primarily for stashing cash is a severe underutilization of this powerful tool. If the people taking part in the survey invest part of their funds in the bank that conducted the survey (i.e., **Bank of Montreal** (TSX:BMO)(NYSE:BMO)), they would be able to harness some of their TFSA's potential.

BMO has a 10-year CAGR of 9.2% (dividend adjusted), and $10,000 from your TFSA growing at this rate can become $140,000 in 30 years. BMO isn't even the best growth stock from the banking sector. **National Bank of Canada**, **Royal Bank of Canada**, and **Toronto-Dominion Bank** offer better growth potential.

The point here is that even if you choose a modestly growing stock, your returns would be significantly better than what you'd get by relying only on cash. Canada's banking sector is considered one of the safest in the world, and all the Big Six are Dividend Aristocrats with generous yields. BMO itself offers a 4.3% dividend yield.

And if you don't want the additional $430 a year from dividends, you can choose the reinvestment plan and let your number of shares in the bank grow over time. So, when you do start taking your dividends, the payout will be bigger.

Foolish takeaway

The TFSA offers tax-free growth, and no matter how much you grow your investments in it, the CRA can't touch one dollar. Whether it's capital gains or dividends, they are all yours when they are in your TFSA. And since the TFSA can hold individual stocks, mutual funds, ETFs, bonds, and GICs, using it only for cash is like buying a Mustang and never going past 50 km/h.

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