



TFSA Users: How (and Why) to Avoid This All-Too-Common Mistake

Description

Approximately 49% of Canadian TFSA users surveyed by **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) weren't aware that their TFSAs were able to hold [investments](#) as well as cash. It certainly doesn't help that TFSA stands for Tax-Free Savings Account.

For unaware Canadians using their TFSAs solely as savings accounts in today's low interest rate world, they're leaving a tonne on the table. Not only will their TFSA savings not stand to grow, but they also stand to lose purchasing power over time due to the insidious effects of inflation, which could drastically worsen as a result of the response to the COVID-19 pandemic.

The TFSA could really use a name change!

Despite its name, the TFSA's best use is not as a savings account. If you're looking to [build a nest egg](#) for yourself over the decades, you need to think of the TFSA as an investment vehicle, not as a mere store for excess amounts of cash that go beyond an emergency fund. While it's always good to have a good chunk of cash on the sidelines in your TFSA to take advantage of opportunities to buy the dip like the one we had during the vicious February-March market crash, it's typically a bad idea sit on an overweighting in cash, especially if you're prone to panicking or found that you didn't have enough time to back up the truck on the abundance of opportunities back in the depths of March.

Unlike the crash of 2008, which took a while to bottom out, the 2020 coronavirus crash did not give TFSA investors much, if any, time to research and buy near the bottom. All it took was a few days for the U.S. Federal Reserve to step in, and the stock market skyrocketed sharply, and it hasn't looked back. So, if you hesitated just for a moment or were overwhelmed with the sea of red, you probably didn't back up the truck on stocks with your cash hoard as you would have liked.

That's why it's a good idea for TFSA investors to not sit on cash, waiting for such violent +30% crashes that tend only to happen once every several years, because one could miss out on a rally that could dwarf the next crash that's to come.

Forget hoarding cash in your TFSA! Start investing now

So, what should TFSA investors look to buy now that the **TSX Index** is just one big day away from its pre-pandemic high? Consider scooping shares of a robust bank stock like Bank of Montreal or any other Canadian bank (Big Six or regional) while it's still undervalued, given its longer-term growth prospects.

Bank of Montreal has been surging in recent months. With a handful of effective COVID-19 vaccines that could end the pandemic in the new year, the profound provision-inducing headwinds are going to draw to a close. The banks will be shifting gears from damage control to garnering some meaningful EPS growth.

Bank of Montreal was my top pick after the markets tanked in February and March when shares nearly got cut in half. While the firm had greater exposure to the most vulnerable firms to the crisis, I thought that the wide discount to its book value was unwarranted, given the bank's capital ratio was still strong and the bank's nearly 200-year-old track record as a Dividend Aristocrat, which I thought many TFSA investors were discounting in the heat of the panic.

Foolish takeaway

While BMO stock isn't a steal anymore, it's still pretty undervalued when you weigh its profitability prospects beyond 2021. The 4.4% yield is juicy, and shares only trade at a modest premium to book. You're getting a premium bank for a not-so-premium price tag. So, instead of hoarding cash in your TFSA, think about scooping up the name that I still think is today's best bank for your buck.

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