This Common TFSA Mistake Could Cost Your Retirement!

Description

A Tax-Free Savings Account (TFSA) can be a Canadian investor's best ally when building retirement wealth. There is no other opportunity in Canada where you can invest your hard-earned after-tax earnings and savings, and be liable for *zero* tax! By paying no tax on your investment earnings (in a TFSA of course), you can increase the value of your returns by as much as 30% (depending on your tax-bracket)! That's money Canadians can't afford to be losing.

Yet, many Canadians either aren't using their TFSA, or are not using it properly. *BNN Bloomberg* recently reported that while TFSA use is growing, only 49% of Canadians know they can use the account for investing. On average, cash makes up about 38% of Canadian's TFSA!

Don't waste your TFSA room on high-interest savings accounts

Of course, many banks promote high-interest TFSA accounts. These accounts benefit the banks more than the investor. First read the fine print with these TFSA accounts. Generally, that rate is only promotional and lasts for three to six months. After that, you're back to a measly sub-1% rate.

Second, even with 2.3%, you are essentially losing money after you deduct the cost of annual inflation. For the past 10 years, inflation has been in a range between 1% and 3%. So chances are, if you keep your retirement savings in one of these accounts, you will have less buying power than when you started saving.

Finally, these accounts reduce the purpose of the TFSA. The TFSA account is intended to enable Canadians to *compound* their wealth. Keeping all your investment earnings and reinvesting them is the absolute best way to build retirement wealth.

Yet, if you earn only ~2% interest a year, there is hardly any compounding and hardly any tax to save, even if you maxed out your contribution limit. It voids the point of the TFSA. Don't waste precious contribution space on these savings accounts (unless you somehow need the money in the next year or so).

Learning to invest can pay HUGE dividends

If you want to build real retirement wealth, you have to invest it. You can purchase ETFs or mutual funds in your TFSA, but I recommend building your own portfolio. You have to pay fees and management expenses when you hold passive funds. Like paying tax, these fees reduce you're your long-term ability to compound wealth.

If you are risk-averse, build a foundation with some solid **S&P/TSX 60 Index** stocks. Look for companies with good balance sheets, a well-covered, growing dividend, and long-term trends backing their growth.

This TSX stock is a great TFSA foundation

One TFSA stock that fits the bill perfectly is **Fortis** (TSX:FTS)(NYSE:FTS). It is one North America's largest regulated utility operators. As well, 83% of its business is focused on electric transmission and the remainder is in natural gas distribution/transmission. 99% of its assets are regulated, so it is able to earn consistent cash flows year in and year out.

While there is nothing exciting about Fortis' business or assets, it is in the midst of a major investment cycle. It is investing $19.6 billion over the next five years into growing its rate base. That investment will come entirely from internally generated cash flow, some debt, and equity from dividend reinvesting.

That means growth will come at very little cost to shareholders. As a result, Fortis expects to grow its rate base by at least a 6% CAGR for the next five years. Consequently, it anticipates growing its current 3.9% dividend annually by the same 6% rate.

Forget 2% savings account, why not get safety, a higher yield, and opportunity for growth by owning Fortis in your TFSA. Building retirement wealth takes time, but I would take a bet on the market with this solid stock any day!

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Date
2025/09/10
Date Created
2020/12/24
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