



A Warning for TFSA Investors: Cryptocurrency Funds Could Be Disastrous

Description

In 2020, Bitcoin and some other cryptocurrencies rallied like no other asset class. Bitcoin was trading below US\$5,000 in March this year at a time when the COVID-19-driven shutdowns started shaking the stock market across the world. In contrast, Bitcoin bounced back from its lows in March and started its marvelous journey upward. It reached an all-time high above US\$27,000 on December 27.

Its not easy to find stocks that could beat the outstanding returns that Bitcoin has yielded in just nine months.

Cryptocurrency funds could be disastrous for your TFSA

If Bitcoin's solid 2020 gains lure you to invest in a cryptocurrency fund, then you might be getting into the trap. To be honest, the recent cryptocurrency gains are astonishing, but they're not worth paying attention to if they could completely wipe out your complete investment portfolio.

Especially if you are considering buying cryptocurrency funds with your Tax-Free Savings Account (TFSA) contributions, you should look back at what happened to Bitcoin traders around 2018. Bitcoin surged by nearly 360% between October to mid-December 2017.

It was the first time the cryptocurrency market attracted a large number of stock investors towards it. However, most of them were completely unknown about the risk they are taking with their hard-earned money. What happened next was a disaster for many retail investors.

As Bitcoin tanked from nearly US\$20,000 on December 17, 2017, to below US\$6,000 by early February 2018, most retail investors across the globe lost a big sum of money. Such big losses make you skeptical about investing your money in any asset class.

Know this before investing in cryptocurrencies

According to a [survey](#) by American personal finance firm Credit Karma, U.S. investors alone saw

around US\$1.7 billion in realized Bitcoin losses and US\$5.7 billion in unrealized losses in 2018.

The unexpected and sudden 2018 drop in Bitcoin prices highlighted why the world's most renowned investor Warren Buffett hates cryptocurrencies. He [believes](#) that cryptocurrencies don't have any value. Buffett has made it clear that he would never own any cryptocurrency.

Invest your TFSA money safely in stocks

As far as stock investing is concerned, it could fit investors of all ages with a low- or high-risk appetite. If you have a high-risk appetite, you probably can choose the stocks of some small growth companies. In such growth companies, you can expect outstanding returns on your investment in the long term as the company grows bigger.

On the flip side, if you don't want to take much risk, you can invest in some undervalued dividend companies with decades of solid financial track records. Such undervalued stocks could also give you handsome returns if you hold them for the long term. Plus, you also get extra dividend income each year.

Here's one such great stock

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) could be one such great stock to invest in right now. The bank is on a path to a sharp recovery after facing [COVID-19 headwinds](#) in its fiscal 2020.

Despite coronavirus-related shutdowns, RBC's overall financials remained stable with the help of a huge rise in its capital markets volume during the year. But its stock hasn't rallied much in 2020 and has risen by only 2.1% year to date. I expect its stock to rally in 2021, as investors appreciate RBC's much sooner-than-expected financial recovery in the coming quarters.

Royal Bank also offers a solid 4.1% dividend yield that would ensure that your invested money continues to grow. That's why it would be a much better option for your TFSA than any cryptocurrency-based fund.

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