TFSA Savers: Here’s Why You Should Get Started Investing Right Now

Description

If you’re like one of many Canadians who’s been using your TFSA (Tax-Free Savings Account) as a place to stash cash in those so-called high-interest savings accounts, you may not know that you’re leaving money on the table. Despite the name, the TFSA’s best use is not for sub-1% interest-paying savings accounts, but as a store for long-term investments such as stocks, REITs, royalty funds, and other, more rewarding assets such as gold bullion ETFs.

The power of long-term compounding with CRA (Canada Revenue Agency) taxes taken out of the equation is as profound as it is difficult to fathom. That’s why Canadians, younger ones, in particular, ought to think about some money to work in shares of wonderful businesses on the TSX, rather than waiting for the big market crash that may never come in the timeframe you’re expecting.

TFSA users should invest, not save!

There are many reasons to turn your TFSA into an investment account, not just to grow your wealth at an above-average rate over the long run but to combat the insidious effects of inflation. Now, inflation has been pretty tame for quite some time. While the inflationary (or deflationary) impact of the coronavirus crisis is up for debate, I think that it’d be a wise move for investors to brace themselves for a potential unchecked rise in inflation, even if such an uptick isn’t as severe or as long-lasting as some “inflationistas” think we’re in for.

Sure, an unprecedented magnitude of stimulus calls for some inflation. But are the deflationary pressures of productivity-enhancing technology strong enough to offset the inflationary effects of stimulus? There are arguments on both sides that TFSA investors should be aware of. While it makes sense to effect a small bump in inflation over the near term, given dovish central banks are likely to stand pat with rates near zero, I think it’s unrealistic to expect hyperinflation in Canada as a result of the COVID-19 crisis.

Could we be in for a bump in the rate of inflation past the 2% target? That’s probable. But will it stick around for the long haul or evolve into hyperinflation? I have my doubts. Regardless, investors should still seek to combat the long-term effects of inflation. Even tame inflation near the 2% mark can have an insidious impact on your wealth. If it bumps to the 3-4% range for a few quarters, then TFSA savers have yet another reason to start investing today, rather than sitting on piles of cash.

Railway to a rich TFSA retirement?

CN Rail (TSX:CNR)(NYSE:CNI) is one of my favourite Canadian blue-chip stocks to stash in your TFSA retirement fund for the long haul. The company has one of the widest moats out there and is in a spot to grow its dividend at an above-average rate over the long haul.

While shares of the “boring” business may be uneventful, it’s still a proven TSX beater, with barriers to entry that are wide enough to keep potential new entrants away from its slice of economic profits. Moreover, as rail tech improves over the coming decades (perhaps such tech could lower the rate of derailments and improve operational efficiencies further?), CN Rail may be able to improve its value proposition for customers and its operating margin for its shareholders.

The bottom line

CN Rail is the perfect sleep-well-at-night stock, and it’s a buy for your TFSA if you’re one of many Canadians who’s overweight cash. So, whether we’re due for 2%, 4%, or 8% inflation, you should be looking to grow your purchasing power over time with shares of wonderful businesses. Of course, have some cash on the sidelines to buy dips, but don’t underestimate the effects of inflation over the long run. While I don’t think there’s any reason to worry about stimulus-induced inflation, I do think that sticking on the sidelines for too long is a big mistake.

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