TFSA Investors: 41% of You Are Making This Big Mistake

Description

Before the World Health Organization declared COVID-19 a global pandemic on March 11, 2020, a **Bank of Montreal** study revealed that 53% of Canadians invest their savings. Unfortunately, regarding the Tax-Free Savings Account (TFSA), the asset composition of 41% of users is mostly in cash.

The federal government introduced the TFSA in 2009 so that Canadians can create long-term wealth, if not large, nest eggs. BMO's poll results show that a great number is underutilizing the unique investment vehicle. Cash is good but not advantageous to keep in a TFSA.

Savings superhero

Robert Armstrong, a director Multi-Asset Solutions at BMO Global Asset Management, said then, "There is a place for cash or short-term investments when meeting your short-term goals." He adds, however, that historical evidence suggests individuals who hold short-term investments, such as cash, to meet long-term goals clearly miss out on creating longer-term wealth.

Users who store mostly cash in their TFSAs renders the account dormant. You should benefit from a TFSA's tax-free money growth and returns. Users delight in account's flexibility, yet they still prefer holding cash inside the savings superhero of most Canadians.

Lack of awareness

The December 2020 BMO survey showed that cash is still king among TFSA users. Awareness could be lacking because 24% of respondents aren't familiar with the type of investments they can hold in their TFSAs. Nicole Ow, Term Investments Head at BMO, said, "TFSAs can be a great vehicle to grow savings for short or long-term goals, but it's important to have the money that is contributed working for the investor."

Perhaps the better tact to make users more proactive is to tell them how to use and not use their TFSAs. First and foremost, cash is the least holding that can grow balances significantly. The account works best if users hold income-producing assets like bonds, mutual funds, ETFs, GICs, and stocks.

Dividend heavyweight

Every TFSA investor should maximum the contribution limits every year if finances allow. Besides compounding money, you save on taxes simultaneously. Manage your TFSA correctly, and you'll keep the Canada Revenue Agency (CRA) away.

A dividend heavyweight like **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) is an eligible investment in a TFSA. The $20.37 billion transportation and midstream services company is well-loved by income investors. This energy stock pays a juicy 6.87% dividend, and the payouts are monthly.

Assuming your available TFSA contribution room is $20,000, the annual tax-free income is $1,374 ($114.50 per month). Someone who can invest $150,000 worth of shares today will have $566,509.83 in 20 years. Last year was tough for energy stocks, although Pembina has recovered and is up 25.27% year-to-date.

Pembina Pipeline attracts risk-averse investors because of the integrated business model. Nearly 95% of adjusted EBITDA comes from long-term, fee-based contracts. Cash flows in a highly contracted business are visible and stable. Would-be investors can expect recurring and uninterrupted monthly income streams for years.

Money should work and reproduce

Canadians can make a small fortune, or even millions, using a TFSA. Don't treat the investment facility as an ordinary savings account. Hence, parking cash isn't the best strategy for account holders. Let your money work and reproduce instead of keeping it idle.

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TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
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