



80% of TFSA Investors Are Making This Big Mistake

Description

It wouldn't be a stretch to say that the TFSA is the most beloved registered account, because it is. It surpassed the RRSP as the registered account most Canadians have, and it's easy to see why. Unlike an RRSP, which is akin to a tree that might start bearing investment "fruits" decades later, the TFSA can help you realize gains and profits *now*.

Even though more people have TFSA now, they might not be using it the right way. More accurately, a lot of people don't draw out the full power of their TFSA accounts. Many people make the mistake of using the TFSA only for parking cash, but in 2019, a CRA report revealed another major mistake that four in five TFSA holders are making.

Big TFSA mistake

Compared to the RRSP, the TFSA offers a relatively smaller contribution room, which is frustrating for people who wish to invest more in their TFSA. But apparently, they are a minority. In fact, relatively few people are maxing out their TFSA in the first place. Only about 20% of the TFSA holders are filling their registered account to the brim, and the others are falling short of the mark.

It's not a catastrophic loss, because the contribution room doesn't lapse. Any unused room is added to the contribution room of the next year. But it *does* mean that people are not leveraging the power of time to grow their savings and investments. If only one in five people maxed out their TFSA contributions in 2019, it means four in five people lost a whole year of growth.

Let's see it in terms of numbers. If \$5,000 in your TFSA is growing at about 7% a year, you might have a nest egg of \$38,000 in three decades. But if you fully utilize your contribution room by putting \$6,000 in your TFSA and set it to grow 7% a year, the nest egg would be bigger by about \$7,600.

A dividend stock

If you are focusing on dividend-paying stocks in your TFSA portfolio, try utilizing the full contribution

room to max out your contributions. Take **MCAN Mortgage** ([TSX:MKP](#)) as an example. The generous [dividend stock](#) is currently offering a yield of 8.18%. If you invest the full \$6,000, your monthly dividends would be around \$40.9. Even if you don't want to put all your "contribution eggs" in one basket, it's important that you try to take advantage of the full contribution room.

MCAN had a rough first half of 2020, even rougher than other financial sector business or mortgage lenders. But it finished the year strong, and the revenue (and gross profits) has been higher than they've ever been in the last five years. The company has historically been quite generous with its dividends, and it also rewarded its investors with a sizeable special cash dividend in 2021.

Foolish takeaway

[A TFSA](#) can be a powerful investment tool, but only if you are able to draw out its full potential. If contributing the full amount (usually \$6,000) is difficult, you might consider breaking it down into monthly contributions. \$500 a month might be relatively easier to save, and if you are earning around \$5,000 a month (before taxes), it also sits well with the 10% saving practice.

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