



TFSA Investors: KISS Complexity Goodbye

Description

The Tax-Free Savings Account (TFSA) is one of the best ways to see your investments grow over time. Since 2009, investors have been given a total of \$75,500 worth of TFSA contribution room. Motley Fool investors have since added to their investments every year, and that's great! But the problem is, those opportunities have created a complex investing strategy.

The issue

Each year, you get an additional few thousand dollars to add to your TFSA. Great! You think to yourself, "diversity is great, so I'll add a new stock to my portfolio." You add another line of revenue that then creates another layer of complexity that you have to follow. As the years go by, you add stock after stock rather than adding more cash to indexes, commodities, and equities. This creates a portfolio that hardly even a hedge fund manager could follow.

Yes, one of the top rules should be that you diversify, but there is one thing you should always keep in mind: your goal. Is it to retire by a certain age? To pay off debt? And what are those numbers? This will help guide your investments rather than create a mishmash that really has no goal in mind. This leads me to my next issue.

KISS your worries goodbye

As Dwight Schrute from *The Office* put it (granted, when quoting Michael Scott), "Keep it simple, stupid." But this goes far beyond selling reams of paper in Scranton, PA. Your investment strategy for your TFSA should also be simple. If you have a number of TFSAs opened under various accounts, and several stocks within those accounts, you're not just creating a complex situation for yourself. You're also paying insane fees!

If you proceed with simplicity rather than complexity, you also keep your costs far, *far* down. And hey, there's an easy way to simplify your TFSA and still have diverse portfolios: ETFs! If you invest [primarily in ETFs](#), you can get all the diversification you want by investing in companies that provide global

exposure to both stocks and bonds.

But not *too* simple

Now notice, I said to invest *primarily* in ETFs in this case — not completely. Many new investors don't know where to put their cash, so may choose one of the Big Six banks. That's fine, but you shouldn't have all your cash in one stock, ETF, bond, or anything. Too little diversification is just as bad as too much. While less is more, it's still good to have a few options in your TFSA portfolio so that when one area is down, another picks it up. This creates a strong, defensive investment strategy towards your ultimate goal. So, you therefore keep costs down, and the cash if there when you need it most.

Some strong options I would consider today would be **Vanguard S&P 500 Index ETF** ([TSX:VFV](#)) and **Horizons S&P/TSX60 Index ETF** ([TSX:HXT](#)). You get access to both of the [top performers](#) on both the S&P 500 and the TSX but at a cheaper price. Vanguard offers managers, while Horizons offers an artificial intelligence-run portfolio. This creates a perfect point for new Motley Fool investors to start their TFSA portfolios.

Bottom line

While the TFSA is great, if you have too many investments, or too few, you can create a situation where you risk having far less than what you need down the road. By keeping your investing strategy simple, and ultimately having a goal, each year Motley Fool investors can use your TFSA contribution room to support that goal. You'll therefore create a [long-term investment strategy](#) that will see fewer costs and more rewards down the line.

CATEGORY

1. Investing
2. Personal Finance
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:HXT (Horizons S&p/tsx 60 Index ETF)
2. TSX:VFV (Vanguard S&P 500 Index ETF)

PARTNER-FEEDS

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