



TFSA Holders: 2 Mistakes to Avoid if You Want to Grow Rich

Description

Choosing the right stock and buying it at the right price is only part of the puzzle. Another part is placement, which is where are you keeping your stock (or another investment asset). And it's just as important because a simple tax-deferred or tax-free status can drastically change the returns you get from that stock.

This is one of the main reasons why Canadian investors are always encouraged to max out their Tax-Free Savings Accounts (TFSAs) and RRSPs before turning to non-registered accounts for keeping their stocks. And out of the two, TFSAs usually get more investor attraction for a number of reasons.

It's completely tax-free, not just tax-exempt because you contribute your taxed dollars to it. But more importantly, your TFSA funds are at your disposal at any given time. You don't have to wait for retirement to access your TFSA funds without being subjected to painfully high withholding taxes.

But in order to ensure that you maximize the benefits a TFSA offers, you have to make sure you don't make certain mistakes. There are two that can get your TFSA funds penalized, offsetting your gains.

Mistake #1: Over-contribution

You are usually allowed to contribute \$6,000 a year to your TFSA. If you withdraw your funds during one year, you get the same amount of contribution room back for the next year, but apart from that, any additional dollar you contribute to your TFSA gets taxed. And the CRA will keep taxing it (every month) until you withdraw it or it's absorbed by the contribution room next year.

And there is no reason to overcontribute when you can get amazing returns with \$6,000 capital if you invest in the right stock. [One stock](#) to consider in this regard is **TerraVest Industries (TSX:TVK)**, a non-energy stock in the energy sector. TerraVest is more of an industrial stock that contributes to the energy infrastructure. It creates vessels (for storage *and* transportation) for LPG/NGL, NH3, industrial gas, refined fuel, and water.

Thanks to its diverse product range, TerraVest is also a B2C business. It serves the residential HVAC

industry in North America with its heating products.

TerraVest is currently available at a very reasonable price, which is quite a bargain considering the growth prospects the company offers. Its five-year CAGR of 28.4% is enough to triple your \$6,000 TFSA contributions in the next five years (if the company can sustain its growth pace).

Mistake #2: Over-trading

A TFSA is not merely a “savings” account, as many people mistake it for. But while you can put stocks in it, it’s also not a trading account. It’s created to help Canadians save and grow their investments long-term, but if you start treating it differently and the CRA detects too much trading activity, it will revoke the tax-exempt status, and your TFSA contributions and savings would be taxed as business income.

If you want your TFSA to become a source of passive income, a much better alternative would be to put a [high-yield dividend stock](#) like **PRO REIT (TSX:PRV.UN)** in it. The commercial REIT is currently offering a juicy, 6.4% yield. And if you can allocate a decent sum within your TFSA (say \$30,000) to this stock, you can start a passive income of about \$160 a month.

It can help you with small expenses. But an even better use would be to opt for a DRIP (or reinvest your dividends manually). At \$6.95 a share, you can buy about 23 shares of this REIT every month, and if you set it on autopilot for a decade or so (considering the price doesn’t become too high and the REIT sustains its payouts), you can turn it into a fat passive income stream.

Foolish takeaway

[The TFSA](#) is a powerful ally of every Canadian investor, and you don’t want to alienate that ally by making these or other TFSA mistakes. If you use it the right way and choose the right assets to put in it, you can be confident on your way to a relatively wealthy future.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:PRV.UN (Pro Real Estate Investment Trust)
2. TSX:TVK (TerraVest Industries Inc.)

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