1 TFSA Mistake That Could Destroy Your Investments

Description

One of the ways governments around the world try to lessen the state's burden of a retirement pension is by encouraging people to invest for their own retirement. The premise is that a retiree who has lost their primary income source can create an alternative income source through a combination of government pension and their own retirement savings. That was one of the reasons for creating the RRSP.

But what about the TFSA? While it *can* and *should* be used for retirement savings, that's not all it's good for. Since you don't have to pay a withholding tax on your TFSA withdrawals, and you always have access to your TFSA funds (you don't have to wait till retirement, like the RRSP), it's an ideal account for short-term as well as long-term investments.

The TFSA is a powerful tool, but you can forfeit its powerful tax-free status and potentially destroy your investments with one TFSA mistake: overtrading.

Overtrading in TFSA

Until you retire, an RRSP is essentially a one-way account. The money goes in, but it doesn't come out. The TFSA, however, can almost feel like a regular bank account, since you can withdraw your funds just as easily as you contribute (keeping the contribution limits in mind).

If you are not careful, you might take advantage of this system and increase your investing frequency to "trading" levels — i.e., buying and selling stocks on a daily basis. And that's where you'll be crossing the CRA's sacred lines regarding the TFSA.

It's a tax-free "savings account," and even though the CRA allows you to keep and grow your investments in it tax-free, "trading" doesn't fall under this definition. The CRA considers trading in your TFSA a business activity and can revoke its tax-free status. Then all your TFSA funds are taxed at the business income rate.

If you don't want to get penalized this harshly, it's a good idea to invest in good companies and try and hold onto them for years. This will keep you in the CRA's good books *and* significantly increase your chances of growing your capital.

A media company

While the era of streaming and services like **Netflix** have practically killed the cable and conventional media services, media companies with diversified operations, like **Quebecor** (TSX:QBR.B), are still holding out. The Montreal-based media company has deep roots in the community and has three business segments: telecom, media, and sports & entertainment.

The company owns about two-fifths of the shares for TVA and its specialty channels, and in 2020, its newspaper reached about 3.7 million readers a week on average.

Thanks to its impressive presence and solid financials, the company and its stock have seen steady growth in the last decade. 2021 isn't going as great for the company, and the stock is already down about 15% from its yearly peak, but that allows investors to lock in a relatively juicy 3.5% yield.

A REIT

If you are looking to add some capital growth to your TFSA, **Interrent REIT** (TSX:IIP.UN) is a good option. The REIT, while not very generous with its yield (1.8%), has an impressive capital growth history reflected by its 10-year CAGR of 26.6%. That's a powerful enough growth rate to double your capital in fewer than five years. And if the REIT can sustain this growth rate for a decade or so, you can use it for many of your pre-retirement investment goals.

The REIT is primarily focused on multi-residential properties, and thanks to its residential portfolio, the REIT might be poised for a discount once the housing market fully deflates. So, try and buy it before the next bull market phase.

Foolish takeaway

Even with its relatively small contribution limit and trading frequency cap, the TFSA is a powerful ally of all Canadian investors. With the right assets growing for a decent amount of time, your TFSA can help you meet your investment goals at an expedited timeline.

CATEGORY

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