



47% of Canadians Made This Huge TFSA Mistake

Description

The **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) does its share of educating Canadians on the benefits of saving for the future. Its 2020 annual Tax-Free Savings Account (TFSA) survey gave a fresh insight into how account holders used the investment account amid the pandemic.

Nicole Ow, Head of Term Investments at BMO, said, “Despite such a challenging year, it’s encouraging to see that Canadians are resilient when it comes to savings.” Because the level of savings is higher, investors are turning to the TFSA.

Ms. Ow notes that the 2020 results highlighted the importance of maintaining a savings plan to build rainy day funds or [investing for long-term goals](#). However, BMO’s survey also revealed that not all users reap the maximum benefits of their TFSAs.

Startling revelation

The TFSA is very popular with Canadians — except that nearly 24% of [TFSA investors](#) don’t know or are unaware of the eligible investments. Moreover, only 49% of the respondents know that you can hold cash and at least one type of investment in the account.

But the most startling revelation is that 47% of TFSA users store cash rather than hold [income-producing assets](#). TFSA crafters didn’t intend the account to be a regular savings account. The account is unique in that money growth, and withdrawals are tax-free. Apart from cash, you can hold bonds, GICs, mutual funds, ETFs, and stocks.

TFSA users underutilize the account if the greater proportion of holdings is in cash. Ms. Ow advises TFSA investors, “When investing, it’s important to make sure that the money being invested is working for you.” Thus, it’s a huge TFSA mistake to keep idle money that won’t deliver tax-free gains.

Dividend pioneer

BMO is an ideal anchor holding for TFSA investors. The bank stock pioneered dividend payments and started sharing a portion of its profits with shareholders in 1829. By 2029, the dividend track record would be 200 years.

With its \$84.71 billion market capitalization, BMO is Canada's fourth-largest bank. The current share price is \$129.51, while the dividend yield is 3.27%. If you haven't contributed to your TFSA this year and bought \$6,000 worth of BMO shares, the \$196.20 quarterly dividend is tax-free.

BMO isn't only for the TFSA. It's also an eligible investment in a Registered Retirement Savings Plan (RRSP). The best part is that you can buy the share today and never sell. Your income stream is pension-like, and therefore, for life.

Dividend champion

Imperial Oil (TSX:IMO) is also best for long-term investors. At \$42.54 per share, the dividend yield is a modest 2.30%. However, if you're risk-averse, this energy stock is for you. This \$29.99 billion crude oil and natural gas producer is a dividend champion like BMO.

The dividend track record is likewise extensive and dates back to 1881 or 140 years ago. Imperial Oil CEO Brad Corson had reassuring words to investors in a conference call recently. Corson said, "We have paid a dividend reliably for over 100 consecutive years now and grown it in each of the last 26 years."

Corson emphasizes management's commitment to returning cash to Imperial Oil shareholders. The **ExxonMobil** subsidiary prioritizes shareholders' return than overspending on big growth projects.

Have the confidence to invest

BMO and Imperial Oil have sterling dividend track records, which should give TFSA users the confidence to invest and maximize their accounts instead of storing cash.

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