How I'd Invest a $75,500 TFSA

Description

Did you know that you can invest up to $75,500 in a Tax-Free Savings Account (TFSA)?

While the contribution limit for 2021 is $6,000, TFSA room is cumulative. So, if you were 18 years of age or older in 2009, you can deposit up to $75,500 (assuming you haven't made any deposits already).

Certainly, $75,500 is a sizable sum of money to invest. And you have a whole universe of investments available to you. Everybody's needs are unique, and you should speak with a financial adviser before you make investments. As for me, I know exactly how *I* would invest a $75,500 TFSA. In this article, I will explore two categories of assets I would invest a TFSA in–assets that I personally hold already in my own TFSA.

Index funds

Index funds are the bedrock of every sensible investor's portfolio. While we all like to play around with individual stocks now and then, it's hard to beat the long-term returns of index funds. For that reason, I have a substantial portion of my portfolio in index funds like the **iShares S&P/TSX 60 Index Fund** (TSX:XIU). These funds offer low fees, ample diversification, and plenty of room for growth. XIU is invested in the TSX 60–the 60 largest Canadian stocks by market cap. The fund charges a mere 0.16% fee and is basically guaranteed to track the performance of the index. Finally, it offers a decent dividend yield of 2.3%. Overall, it's a great fund to get started with TFSA.

Canadian stocks

The next asset class I'd consider for a TFSA would have to be dividend-paying Canadian stocks.

If you're like most investors, you're probably interested in a wide variety of stocks–Canadian, U.S., and global. They're all good choices. But you're better off holding dividend-paying foreign stocks in an RRSP rather than a TFSA. Foreign governments charge dividend withholding taxes on stocks based in their countries. The TFSA doesn't spare you this tax, but the RRSP often does. For example, the U.S. government will waive the 15% U.S. withholding tax in RRSPs but not TFSAs.

For this reason, I prefer to hold Canadian dividend-paying stocks in my TFSA. If you look at a dividend stock like **Enbridge** (TSX:ENB)(NYSE:ENB), it pays a 6.33% dividend yield, and the TFSA spares you from paying even a penny in tax on the dividends. If ENB were a U.S. stock, you'd have to pay a 15% tax on those dividends, even in a TFSA. But because it's a Canadian stock, you pay no tax whatsoever. So holding Canadian stocks in your TFSA can be a great idea. It saves you money on taxes–both Canadian and U.S.–boosting your total return.

Foolish takeaway

The TFSA is a great account to shelter your investments from taxation. But you need to use it properly. The TFSA doesn't spare you *all* taxes, but it spares you a good few. So make sure you hold mostly Canadian index funds and stocks in your TFSA. The RRSP is a better place for foreign investments.

CATEGORY

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2. TSX:ENB (Enbridge Inc.)
3. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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Date
2025/08/26
Date Created
2021/11/16
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