TFSA Investors: 2 Massive Mistakes to Avoid

Description

Not every investor tends to follow the same route to investment. Their investment goals, investment knowledge, access to capital, risk appetite, and several other governing elements shape the investment approach of an investor. It also impacts how actively investors manage their two registered account portfolios: RRSP and TFSA portfolios.

In some cases, investors are more active when it comes to their TFSA portfolio, since the funds in it are always accessible and can be used to meet the short-term savings and investment goals. More activity can also lead to more mistakes. Some mistakes are quite easy to rectify and do no/minimal lasting damage to your TFSA portfolio. However, there are massive mistakes that can be quite devastating for your current financial standing and future. Here are two of them.

Taking the wrong approach to diversification

Contrary to popular belief, diversification isn't always good. *Overdiversification* can be just as bad as *underdiversification*. Where underdiversification increases the risk by tying most of your capital to a specific market segment, overdiversification has the potential to dilute your capital's return potential. In a way, it also increases risk, because it might lead you to invest in assets/markets that you don't properly understand.

For example, if you understand real estate assets, investing in a generous REIT like **BTB REIT** (TSX:BTB.UN) would be better than investing in an asset class you are unfamiliar with. This REIT offers a powerful 7.35% yield, and even though the payout ratio is quite high (142.8%), the company is highly unlikely to slash its dividends again (after the 2020 dividend cut).

Apart from the yield, the other most positive aspect of this stock (currently) is the valuation. It's quite fairly valued and heavily discounted compared to its pre-pandemic peak.

Overtrading

Overtrading is a relatively complex TFSA mistake to avoid, because it's not very well defined as to what constitutes overtrading. So, if you buy and sell too frequently in your TFSA, and the CRA classifies it "day trading" instead of investing, it can revoke your TFSA's tax-free status and tax your TFSA funds as business income.

One way to avoid the need to buy and sell assets too frequently is investing in worthy long-term holdings like **Granite REIT** (TSX:GRT.UN). It's a well-balanced growth and dividend stock, though the 10-year CAGR of 18% is a bit more powerful than its 2.9% dividend yield. The current undervaluation of the company is another compelling reason to buy the stock.

Another aspect that makes Granite an amazing holding, at least in the current economy, is its portfolio. The REIT has a globally diversified portfolio of light industrial assets (e-commerce-related properties), which is expected to remain relevant for a relatively long time.

Foolish takeaway

There are a few other TFSA mistakes as well, like overcontribution, which can easily be rectified. However, the mistakes you make regarding asset selection in your TFSA can have significant long-term impacts. Similarly, any mistake that impacts the tax-free status of your capital, like putting the wrong asset in your TFSA, should be actively avoided.

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Author
adamothman