Should Canadians Hold More Cash in Their TFSAs Today?

Description

The worsening geopolitical tensions and looming jumbo inflation could lead to a severe market correction soon. For now, Canada's primary stock benchmark remains steady. The **S&P/TSX Composite Index** advanced 1.2% on mid-week, despite announcements from the West of an embargo on Russia's oil exports.

Tamara Lawson, chief financial officer at BCI QuadReal Realty, said, "Volatility will continue throughout the year." This is bad news for retirees and investors, including those with stocks or other income-producing assets in their Tax-Free Savings Accounts (TFSAs).

Money compounds faster in a TFSA because capital growth is tax free. Cash makes nothing, and therefore, TFSA users get no savings or forfeit their tax-free advantage. While it's not advisable to store cash in a TFSA, it might be prudent to have more liquidity because of the impending financial crunch.

The problem with inflation

People are in a dilemma right now since inflation impacts on the value of money. The prices of goods and services are rising, and wages aren't coping. Your cash on hand today could buy less tomorrow. For investors, panic is the usual gut reaction when they expect the market to tank.

The TSX went through two economic downturns, and it recovered in both instances. After losing by 35.03% in the 2008 financial crisis, the index came back strong in 2009 to deliver an overall return of 30.69%. In 2020, the gain was 2.17%, despite the COVID-induced crash in March. The total return in 2021 was 21.74%.

If a market crash worries you, but you don't want to lose the propensity to earn tax-free income, stay invested. Hold or stick to reliable dividend stocks that have endured financial meltdowns. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Canadian Utilities** (TSX:CU) are not risk-free investments, but they can keep you whole on dividend payouts.

Dividend pioneer

Canada's fourth-largest bank and oldest financial institution is the TSX's dividend pioneer. The $95.41 billion bank started the practice of sharing a portion of profits in 1829. Its dividend track record stands at 192 years. Apart from the 2008 financial crisis and 2020 global pandemic, BMO witnessed two world wars.

At $147.14 per share, current investors enjoy a 9.05% year-to-date gain in addition to the 3.74% dividend yield. The bank stock's total return in 49.27 years is 31,947.37% (CAGR 12.42%). In the banking sector's dividend bonanza on year-end 2021, BMO announced the highest dividend increase (25%).

Dividend King

Canadian Utilities is the lone Dividend King on the TSX or a company with 50 consecutive years of dividend increases. The $9.74 billion diversified global energy infrastructure corporation delivers essential services. Management invests heavily on regulated assets or operations.

The highly contracted and regulated earnings base is why Canadian Utilities can support dividend growth and sustain the payouts year after year since 1972. Its high-quality earnings base and healthy cash flow should further increase, as the company continues to invest in regulated and long-term contracted assets.

The top-notch utility stock trades at $36.07 per share and offers a hefty 4.92% dividend. A $6,000 position in a TFSA will produce $295.20 in tax-free income.

Balance your holdings

TFSA users can balance their holdings between cash and stocks during the inflationary period. Remember, too, that withdrawals of dividends or earnings are tax exempt.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)
3. TSX:CU (Canadian Utilities Limited)

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