TFSA Investors: 42% of You Are Making This 1 Giant Mistake

Description

The Tax-Free Savings Account (TFSA) in Canada entered its 13th year in January this year. Among the unique features of this investment account is tax-free money growth. Users just need to follow the governing rules to be tax-free all the way. Unlike the Registered Retirement Savings Plan (RRSP), you can keep your TFSA as long as you live.

While its popularity and participation by Canadians have increased since 2009, not all account holders realize the maximum benefits. Based on data from Statistics Canada, more than 40% of Canadian families had at one least TFSA before the pandemic.

However, the Ipsos survey for RBC reveals that 42% of TFSA holders held a significant amount of cash in their accounts. Cash is good, but it returns the least, if not zero, in a TFSA. Your TFSA is under-utilized if you hold more cash than income-producing assets like bonds, mutual funds, GICs, ETFs, and stocks.

Hedge against inflation

Hard-core TFSA investors will not miss the chance of contributing the maximum limits every year. Dividend stocks, for example, have higher returns and deliver regular income streams, usually every quarter. This year is a period of high prices, and investment income is your hedge against inflation.

Moreover, you can re-invest the dividends for faster compounding of your TFSA balance. Stuart Gray, director of RBC's Financial Planning Centre of Expertise, notes, "The magic happens when you invest the money within your TFSA and gain the benefit of compounding, which helps your earnings generate even more earnings."

Safe dividends

The stock market is not without risks, so the choice of stocks is also crucial for TFSA investors. Mitigate the risks by selecting established dividend-payers. **Great-West Lifeco** (TSX:GWO) and **TELUS**

(TSX:T)(NYSE:TU) pay attractive dividends but their yields aren't the highest in the market. However, the payouts should be safe and sustainable.

Great-West trades at $36.31 per share and pays a 5.45% dividend. In 2021, the $33.79 billion international financial services holding company reported net earnings of $3.12 billion. The year-over-year growth was 6.29%. However, the highlight was the 21.9% base EPS growth (13.4% CAGR in the last three years).

Great-West President and CEO Paul Mahon said the company will strategically pursue further growth opportunities in 2022. Also, management will maintain risk and expense discipline to deliver sustainable, long-term shareholder value.

TELUS reported impressive financial results in Q4 2021. Adjusted EBITDA, consolidated revenue, and net income increased 7.6%, 20%, and 145% versus Q4 2020. For full-year 2021, net income rose 35% year-over-year. Notably, management announced a 5.2% increase in quarterly dividend effective April 2022.

For 2022, TELUS targets an 8% to 10% increase in operating revenue and adjusted EBITDA. The $44 billion telco expects to generate free cash flow between $1 billion and $1.2 billion. At $32.12 per share, the dividend offer is 4.08%.

Not a cash storage

If you want a storage for your cash, hold in a regular savings account or a non-registered investment account. However, if you need to turbo-charge your savings or nest egg, the TFSA is a powerful tool. Once income from dividend stocks start flowing, you can withdraw or take out the money without any tax consequences.

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3. TSX:T (TELUS)

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