1 Huge TFSA Mistake That Millions of Canadians Are Making

Description

Tax-Free Savings Account (TFSA) holders can't complain about the unique features of their investment accounts. Besides the tax-free money growth, no tax is due when you make withdrawals. Surprisingly, millions of Canadians treat their TFSAs as a simple savings account.

The results of a survey by Ipsos for **RBC** shows that 42% of TFSA holders have significant cash stashed in their accounts. While the name is confusing at times, TFSA crafters would say it's a huge mistake storing just cash in the account. They expect users to hold more income-producing assets than cash to make more money.

Statistics Canada reports the impressive uptake of the TFSA since its introduction in 2009. Unfortunately, quite a number of users underutilize their accounts. With prices likely to remain elevated throughout 2022 and perhaps extending until 2023, it would be smart to invest if finances allow.

Dividend investing

Most TFSA investors prefer dividend stocks to earn recurring income streams. However, in the current situation, dividend investing is one way to cope with rising inflation. The passive income you will create will not only serve as a financial cushion but also prevent the erosion of your purchasing power.

For less than $20 per share, you can purchase shares of **Freehold Royalties Limited** (TSX:FRU) and **Sienna Senior Living** (TSX:SIA). With their 6% dividend yields, your $6,000 TFSA limit will generate $360 in tax-free income. Assuming your available contribution room is $25,000, the financial buffer will amount to $1,500.

Steady performer

Freehold Royalties benefits from rising commodity prices, particularly oil. The royalty stock has been a steady performer since last year when energy demand rebounded. At $15.98 per share, the trailing one-year price return is 122.25%, while the year-to-date gain is 33.28%. At $15.38 per share, the dividend yield is 6.24%.

The focus of this $2.25 billion oil & gas royalty company is in Canada and the U.S. where it owns working interests in oil, natural gas, and natural gas liquids plus potash properties. In 2021, Freehold collected $206.19 million in royalty revenue, which represents a 129% increase compared to the previous year.

Freehold's net income reached $72 million, compared to the $13.92 million net loss in 2020. The highlight in Q4 2021 was the 33% increase in dividends, the highest increase by management since late 2015.

Steadily improving fundamentals

If the energy sector is too volatile for you, Sienna Senior Living is another generous dividend payer. The $1.12 billion company is an icon in the senior living and long-term care (LTC) industry in Canada. As of this writing, the share price is $15.44. Current investors are up 3.8% year-to-date and partake of the 6.06% dividend.

The COVID-19 pandemic inflicted harm on the business, although the operating environment is starting to strengthen. Management reported a net income of $20.64 million in 2021 compared to the $24.48 million net loss in 2020.

Sienna's president and CEO, Nitin Jain, said the fundamentals in the seniors' living sector have steadily improved in the back half of 2021. It also supported its significant occupancy recovery. For 2022, expect management to capitalize on the increased momentum in its development pipeline.

Boost household income

An inflationary period could diminish the buying power of Canadians. However, holding income-producing assets in a TFSA can boost household income in 2022.

CATEGORY

1. Dividend Stocks
2. Investing

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