Thinking of Opening a TFSA? Don't Make This Mistake!

Description

The Tax-Free Savings Account (TFSA) is one of the best tools ever created for Canadians to build wealth. But while it has the word *savings* in its name, a more accurate title should be Tax-Free Investing Account.

The TFSA allows Canadians to use the cash they have saved in the account to invest in securities — most commonly, stocks. Having the ability to invest your money in many different companies operating across several industries is incredible.

It allows Canadians to build a diversified portfolio of high-quality companies offering both capital gains potential and passive income. That's why it's one of Canadians' best tools to build wealth.

And because all of the money you make in these accounts are tax free throughout your life, as you save and invest for retirement, you can potentially save tens of thousands of dollars in taxes.

Yet some Canadians have never even opened their TFSA, and others use the account simply to hold cash. This is a crucial mistake. Of course, it's always important to hold some cash as an emergency fund. However, any other cash should be invested immediately.

As I said above, having the ability to invest your money and earn tax-free gains is a significant advantage. And with the power of compound interest, it can lead to massive returns down the line.

So, it's crucial to use your TFSA to invest in stocks and to start investing as early as possible to give your capital a longer timeline to compound.

Use your TFSA to buy and hold high-quality Canadian stocks

Even if you're new to investing, there are certain ETFs you can buy, which will give you exposure to the stock market and grow your money without you having to do a tonne of research and select your own stocks to buy.

But for those investors who do want to pick their own stocks, often some of the most well-known companies in Canada are some of the first stocks to consider.

For example, **Dollarama** (TSX:DOL) is a brand that's well-known in Canada, and part of that is due to its explosive growth over the last 15 years. Not only has the trend from consumers to shop at discounted retailers in order to help save money been growing, but Dollarama has also done an incredible job executing its growth strategy.

In recent years, the company has continued to open several new stores; it's slowly but efficiently raised prices for goods; and it's even begun to invest outside Canada — most recently, making a significant investment in Dollarcity, a Latin American dollar store chain.

That's why it's no surprise that over the last decade, investors have earned a total return of nearly 800% owning Dollarama. That's a compounded annual growth rate of more than 24% a year, showing just how much money it's possible to make owning high-quality Canadian stocks in your TFSA.

So, if you're a Canadian, and you've yet to open a TFSA, or you do have one open but you're simply using it to hold cash, I'd look to begin investing your money as soon as possible.

The longer you invest your money, especially in a tax-free account, the longer it has to grow significantly.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

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3. Msn
4. Newscred
5. Quote Media
6. Sharewise
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