Canadian Investors: Don't Make This Critical TFSA Mistake

Description

The Canadian government introduced the Tax-Free Savings Account (TFSA) in 2009 to encourage Canadian households to improve their savings practices. Rather than being a mere savings account, the TFSA has become a valuable wealth-building tool through its tax advantages and flexibility.

You can use the cash you have stored in your TFSA to invest in various securities. Any income you generate through investments held in a TFSA can grow your account balance without incurring any taxes. When you make contributions to a TFSA, it is through after-tax dollars. It means that any taxes from your TFSA contributions have already been deducted.

Using a portion of your available TFSA contribution room to buy and hold securities like blue-chip stocks could be an excellent way to enjoy the tax advantages of the account.

It can let you build a diversified portfolio of high-quality, income-generating assets that offer wealth growth through shareholder dividends and capital gains. It is no surprise that the TFSA has become a popular investment vehicle for many Canadians.

Since all the income you generate in the account does not incur taxes, you can keep investing in your account and grow your account balance to accumulate a large nest egg for your retirement. Depending on how well you use your TFSA, you can save tens of thousands of dollars in taxes in your lifetime.

Crucial TFSA mistake to avoid

Unfortunately, many Canadians have not even opened a TFSA. To make matters worse, some people use the account to simply hold cash. It is wise to have some cash set aside, and there is nothing wrong with using some of the contribution room in your TFSA for that purpose.

However, allocating your contribution room to cash and generating returns through interest alone is a waste of an excellent opportunity.

Investing your money in reliable assets that can deliver returns superior to interest income could be a much better way to use a TFSA. Additionally, reinvesting your investment returns to purchase more income-generating assets can help you unlock the power of compounding to accelerate your wealth growth.

Using your TFSA to invest in high-quality stocks and building a diversified portfolio as early as possible can help you become a far wealthier investor down the line.

Foolish takeaway

The tax-advantaged status of the TFSA makes it ideal to buy and hold assets for the long run. Many stock market investors do not hold onto their investments for a long time, because they want to cash in on capital gains and invest in more stocks. However, a high-quality stock like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) stock could be an excellent long-term investment.

RBC is a $196.43 billion market capitalization Canadian bank headquartered in Toronto. It is Canada's largest bank by market cap, and it holds the top spot overall on the TSX in that regard. The financial institution could be one of the best long-term investments for any investor.

The company generates substantial cash flows year in and year out. Fiscal 2021 saw RBC rake in over $16 billion in profits. The bank is also sitting on a substantial amount of excess cash that it set aside to ride out the economic impact of the pandemic.

RBC is focusing on expanding its operations further, with one deal to acquire a wealth management firm in the U.K. underway and potentially more on the way.

If you are looking for an investment to begin building a strong TFSA portfolio, Royal Bank of Canada stock could be an ideal place to begin.

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