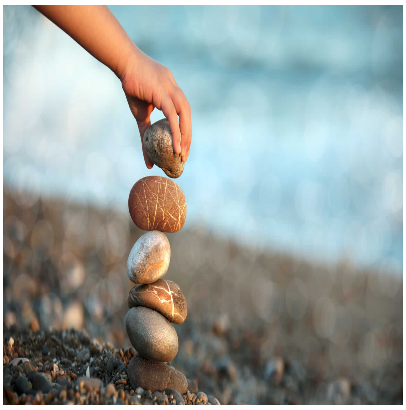

How I'd Invest in a TFSA Today If I Were Starting Over

Description

I still remember the first investments I made in my Tax-Free Savings Account, or TFSA: a few random, highly speculative penny stocks and weed stocks. Needless to say, they didn't do so well once the mania died down. I still hold a few of them today to remind myself about the importance of diversification.

If I could travel back in time and start over, I would stick the majority of my TFSA into a all-in-one, low-cost, globally diversified exchange-trade fund, or ETF. I might reserve a small portion for a few choice Canadian stock picks (and the Fool has some great recommendations there).

Why invest in an ETF?

The main benefit of an ETF is the ability to diversify easily at a low cost. Imagine trying to buy enough stocks from all 11 stock market sectors, small-, mid-, and large-cap stocks, and stocks from U.S., Canadian, and international markets.

Your portfolio would be very unwieldy and difficult to manage. You'll have to convert currency for non-Canadian stocks, reinvest dividends, and re-balance each individual holding periodically. At this point, you're performing the role of a fund manager, minus the salary.

Broad-market ETFs that hold thousands of stocks alleviate this issue. Buying these ETFs grants you an instantly diversified portfolio of stocks in a single ticker. There's no need to keep up with research or listen to earnings reports. It's as passive as investing gets.

My ETF of choice

If I had to start over with my TFSA today, I would invest it all in **Vanguard All-Equity ETF** (TSX:VEQT). This ETF trades at around $33 per share but provides exposure to over 13,000 stocks from U.S., Canadian, and international stock markets.

VEQT is basically an all-in-one, globally diversified stock portfolio that you can buy with a single ticker. It's managed passively on your behalf by Vanguard and will automatically pay out dividends annually and re-balance the underlying portfolio periodically.

With VEQT, investing becomes as simple as buying consistently, reinvesting dividends, and holding for the long-term. Investing in VEQT encourages you to avoid bad investing behaviours like trying to time the market, panic selling, or chasing hot asset classes. Other benefits include the following:

- **High diversification:** VEQT holds stocks from U.S., Canadian, and international markets, small-, mid-, and large-cap stocks, and stocks from all 11 market sectors.
- **Minimal costs:** VEQT costs a management expense ratio of 0.24%, or $24 in annual fees for a $10,000 investment.

By buying VEQT, investors can ensure that they receive the average return of the world's total stock market. VEQT won't beat the market, but it's unlikely to underperform it either. As John Bogle, the founder of Vanguard once said: "Gunning for average is your best shot of finishing above average."

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