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

Description

Whenever I feel like trying my hand at picking stocks, I pull up my Tax-Free Savings Account (TFSA) and cringe inside at the poor investment choices my 18-year-old self made in penny stocks and weed stocks. I keep those poor stock picks to remind myself about the importance of diversification.

If I could go back in time and give 18-year-old Tony some advice, I would urge him to invest his TFSA contributions in a globally diversified, low-cost exchange-trade fund, or ETF. Here's why most Canadian investors would do well to heed this approach.

Why invest in an ETF?

We all know that diversification is good, but what does it mean? Well, practically it means buying enough stocks from all 11 stock market sectors, market cap sizes, and geographies to reduce the risk of a single stock, sector, or country performing poorly and tanking your portfolio.

Outside it stocks, it also means holding safer, lower-risk assets like high-quality bonds to reduce portfolio volatility more. Bonds have historically provided crash protection and stronger returns during most bear markets, so a allocation tailored to your risk tolerance is sensible.

The problem is that buying enough individual stocks and bonds to become properly diversified can be difficult. This is where an ETF comes in. ETFs can hold hundreds, if not thousands of stocks and bonds in a single ticker. There's no research needed. All you need to do is buy and hold.

My ETF of choice

If I had to start over with my TFSA today, my all-in-one ETF pick would be **Vanguard Growth ETF Portfolio** (TSX:VGRO). It's so popular among Canadian investors that there's even a dedicated Reddit board for it (r/justbuyvgro).

VGRO currently trades at around $28 per share but provides exposure to over 13,668 stocks and

18,333 bonds from Canada, the U.S., and international markets. The ETF is as diversified as it gets. VGRO rebalances itself periodically and pays out dividends on a quarterly basis.

By buying VGRO, investing becomes as simple as

- Buying more shares of VGRO consistently;
- Reinvesting dividends on a quarterly basis; and
- Doing nothing and holding for the long term.

For a low management expense ratio of 0.24%, or $24 annually in fees for a $10,000 investment, investors get a complete, professionally managed investment portfolio.

In my opinion, a great way to use VGRO is to hold it with 90% of the capital in your TFSA. Then the remaining 10% can be used as “play money” to scratch that stock-picking itch with a few high-conviction Canadian stocks (and the Fool has some great recommendations for those below).

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Author
tdong