RBC Dominion Securities Inc.

The Fortnighter

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A new year is upon us – and with January now almost a month old, it's time to turf those ridiculous "2020" glasses and get down to business.

In the old days, RRSPs were the only game in town and we could safely defer thinking about matters financial until the end of February. But with the advent of Tax Free Savings Accounts (TFSAs), which have no contribution deadline, January 1st is the time to get going.

But first, should you even have a TFSA? After all, just about every financial expert considers these vehicles to be the greatest thing since unsliced bread. But if you have non-deductible debt (like a mortgage or a Line of Credit), I believe that paying that down should be priority #1. Yes, your mortgage is at 2.99% and any financial advisor worth their salt should be able to "beat that" handily. But… 30 years of experience has shown me that whenever a person/company/country gets itself into financial trouble, the problem is inevitably too much debt. In my book, paying down debt trumps contributing to a TFSA.

Contribution Limits: If you have been an adult since the advent of TFSAs way back in 2009, your accumulated TFSA contribution limit (now that it's 2020) is $69,500. If you've "missed" years, or are uncertain where you stand with respect to your limit, you can find out by logging into your account with Canada Revenue Agency. But **be forewarned**…. Your 2020 limit as stated by CRA doesn't take into account contributions made in 2019. Double check what CRA tells you against your prior year's contribution records – over-contributing to a TFSA is a total pain (and expensive)!

That being said, if you are debt-free and have non-registered cash or investments (and don't like paying taxes), **NOW** is the time to put that next $6000 into your TFSA.

Investments: Financial statistics show that a significant number of TFSAs hold nothing but cash. As an investor, I find this perplexing. Why go to the trouble of setting up a tax shelter, put money into it and not generate anything to shelter? This might be fine if one is, say, saving for a house or using it for an emergency fund (at least hold the funds in a high-daily-interest savings account). But if your TFSA is for investing, take advantage of its unique features and incorporate it into your overall long-term investment strategy.

In my view, two types of investments are particularly well-suited for TFSAs (unfortunately, those lovely U.S. stocks that have done so well for us are not one of them). The first is a speculative investment that is guaranteed to appreciate dramatically (I say this somewhat tongue-in-cheek but feel free to ask why). The second is the highest-yielding thing in your portfolio. Ideal candidates? REITs, preferred shares or any dividend-rich Canadian common shares.