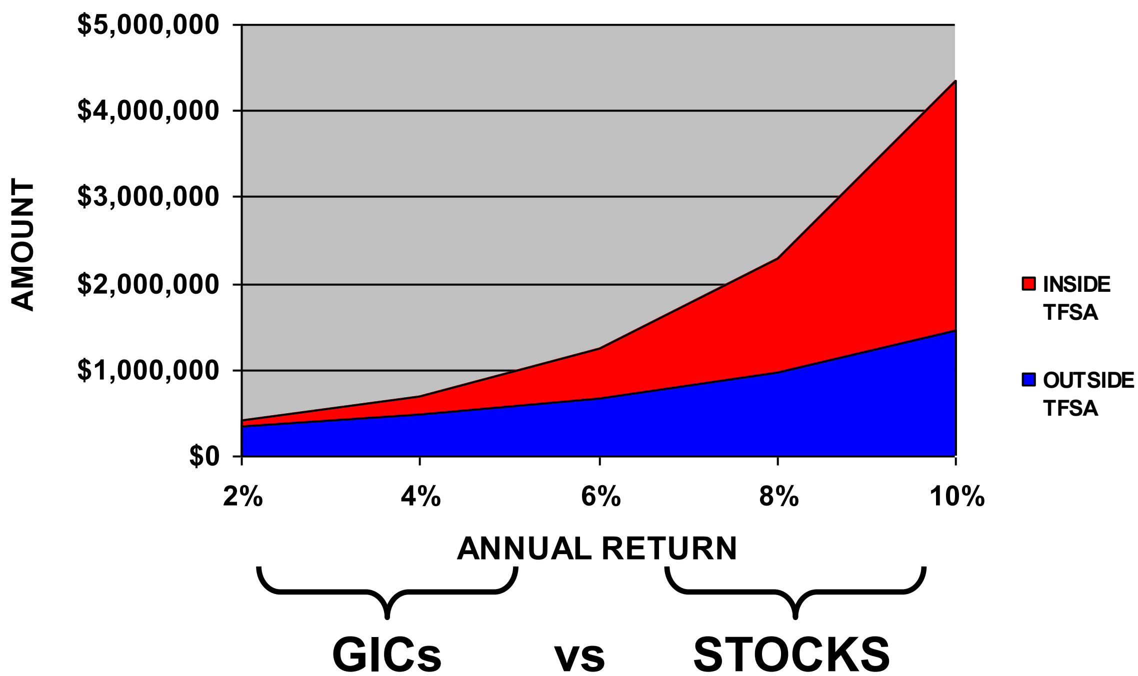
MISTAKES TO AVOID WITH YOUR TAX-FREE SAVINGS ACCOUNT

Build real wealth by avoiding the low interest trap

A Tax-free Savings Account (TFSA) is one of the most powerful investment tools that most Canadians have to dramatically increase wealth and to enjoy it any time without any taxes or penalties to be paid on withdrawal. Every Canadian resident, aged 18 or over, can invest $10,00 per year into a TFSA and is entitled to make unlimited profits without paying tax. The TFSA may hold stocks, bonds, exchange traded funds (ETFs), mutual funds and other investments for superior returns.

Sadly, many Canadians have not received professional financial advice and their TFSA funds are stagnating in low-yielding savings accounts in the major banks collecting only 2%. With inflation holding near 3%, these Canadians are losing purchasing power and becoming poorer instead of building wealth for their future.

The chart below shows how investing only $5500 annually in a TFSA can offer impressive growth for investors in a 35% tax bracket over 45 years as compared to investing outside a TFSA where taxes are paid. The benefit is greater if the TFSA is invested in higher return investments like stocks, ETFs or growth-focused mutual funds.



Use an investment advisor to avoid penalties

By far the most common and dangerous assumption that Canadians make with their TFSAs is that they can take money out and put it back in the same year. This results in over-contribution and penalties can approach 12%. Instead, the penalty can be avoided by simply waiting until the following year to re-contribute the withdrawal.

Using the services of a professional investment advisor will decrease the chances of penalties from tracking errors as well as following the suggestions outlined below:

- Do not dip into your TFSA frequently throughout the year. Instead, put $10,000 into it at the start of the year and let your tax-free wealth build for your future.
- Avoid having more than one TFSA. This will make it easier for you and your investment advisor to track all of your contributions and withdrawals.
- Ask your advisor before transferring a TFSA to ensure that it will be moved and not unknowingly withdrawn and then re-contributed that year incurring a penalty.
- Use whole numbers like multiples of $100 or $1000 when contributing or withdrawing. It will make your job easier to track and stay within the limits.
- Avoid over-contribution penalties caused by kind bank tellers who offer you a TFSA high interest savings account and don't know you have a TFSA elsewhere.
- Make withdrawals only as a last resort. Your TFSA is best used to create wealth by compounding tax-free returns. It is a powerful tool when used properly.

Your professional investment advisor will simplify the management of your TFSA and help you use your TFSA to achieve your future financial benefits sooner.

For more detailed information on TFSA investing and how it can help you reach your financial goals please contact:

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