

## Step 4: Open and Fund Your Accounts

### Description

Pardon us for interrupting your illustrious investing career for this very important public service announcement: Any money you need in the next month, five months, or five years *does not belong in the stock market*.\*

Go ahead and read that sentence again. It is the key to avoiding heartache, headache, and a lifetime of Pepto addiction.

Got it? If so, please continue reading. For those into footnotes, we've provided this one:

*\*The last place for your short-term savings is anyplace where it is at risk of being worth less when you need it most. That rules out the stock market, which is prone to roller-coaster-like ups and downs, as is evident on any chart that tracks its month-to-month performance. Now, we don't want to scare you away from stocks. Over five- and 10-year periods, that squiggly line on the chart that resembles a ride on the Great Scream Machine morphs into a gently rising upward slope. The key is time — giving your money time to ride through the stock market's bumps and tumbles and reap the rewards of long-term investing.*

With that important bit of business out of the way, we're ready to find proper accommodations for all of your savings needs and devise a strategy for funding your long-term financial goals.

### The best places for your short- and mid-term savings

There's a vast array of appropriate places to stash the money you may need to access soon, including basic chequing and savings accounts, high-yield savings accounts, money market accounts and funds, certificates of deposit, and Government bonds. These types of accounts are safe harbours: They won't provide killer rates of return (and at current rates especially, may not even keep up with inflation), but they do provide a guarantee that the money you deposit will all be there when you need it.

Keep in mind that one type of account may not best serve *all* of your short-term savings needs. For example, cash earmarked for a home down payment that you plan to make in a few years is ideal for a GIC (Guaranteed Investment Certificate). Junior's summer camp tuition is better off in a high-yield savings account.

Once you've deployed your funds for near-term needs, it's time to find the right spot for the money you'll need to cover Saturday date nights ... in the year 2041.

### Long-term parking

Your long-term cash stash (specifically, money designated for your retirement years) belongs in accounts set up solely for that purpose — we're talking a personal RRSP (Registered Retirement Savings Plan) and employer-sponsored retirement accounts (such as defined contribution pension

plans).

The defined benefit pension plan in Canada is slowly but surely going the way of the dodo and it is increasingly up to us to save for our own retirement. The two vehicles mentioned above are in place to help us accomplish our goal of building a nest egg so that we may live happily ever after. The common thread that can be pulled through both types of accounts is that your savings are sheltered from taxes, at least until they are withdrawn. This basically means that more money is left in the account and is available to take advantage of....wait for it.....the magic of compounding! Once you are ready to retire and contributions turn to withdrawals, these withdrawals are then taxed at your marginal tax rate. For many, this marginal tax rate will be lower in retirement than it was during the working years, making these accounts somewhat of a win-win situation, at least in terms of shielding these hard earned dollars from the tax man.

Building a nest egg for retirement is important to most Canadians; however, ideally, we would like for you to be able to build a lump sum of cash outside of your retirement account as well. A lump that might come in handy when the kids need a 6 month "experience" in the Yukon or a golf vacation to Prince Edward Island beckons. To do this....

## Get Yourself A Brokerage Account

And we're not talking about calling your neighbour Larry down at WLC Capital (We Love Commission). In this modern age of the internet, get [yourself an online brokerage account](#). These accounts are provided by many of the country's leading financial institutions (banks and others).

Online brokerage accounts allow you all of the tools available with the more traditional brokerage model at a fraction of the cost. Say goodbye to phone calls pressuring you into the latest IPO and hello to simply using your more than capable ability to click (which you've demonstrated by getting this far) your way to buying and selling the stocks of your choice.

With your savings squared away with an online broker (which can also be used for your RRSP by the way), you're ready to get to the fun stuff – investing.

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