



## 3 Big Mistakes to Avoid With Your RRSP

### Description

If you haven't already contributed to your RRSP for fiscal year 2018, you have until March 1 to do so. Contributing before the deadline will allow you to benefit from a tax deduction when you file your taxes for 2018.

An RRSP also offers you the opportunity to enjoy tax-free compounding of returns on investments kept inside the plan. Your investments will only be taxed when you ultimately start withdrawing the funds, usually when you retire.

However, to profit the most from your RRSP, there are some things you should avoid. The three mistakes I present here can be costly and could compromise your retirement, so be careful not to make those mistakes.

### Not taking enough risk

Some people don't buy stocks in their RRSP because they are afraid to lose money. While you shouldn't take too much risk with your RRSP, you also shouldn't invest too conservatively. By just investing in safe investments like GICs and bonds, you might not have enough money to retire comfortably.

It's important to hold stocks in your RRSP because their returns are higher than bonds over the long term. By diversifying your stocks, you will limit your downside risk. Buying blue-chip stocks that pay high dividends is a good strategy, as these companies are well established and financially solid.

Bank stocks are part of those stocks that are financially healthy and pay solid dividends. For instance, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) will give you a [generous dividend](#) of \$3.92 per share for a yield near 4%. The stock has returned about 15% on average annually over the last 10 years, which is about 7% more than the TSX.

## Taking too much risk

There are investors who only think about making the most money they can and thus are taking too much risk. If you're approaching retirement, investing a large portion of your investment portfolio in risky stocks is probably not a good idea. Although you could make a lot of money, you could also lose your life savings. In addition, you cannot claim a capital loss from a stock in your RRSP.

For instance, [energy stocks](#) are very volatile, and if you don't buy them at the right time, you may lose a lot of money.

Investors who'd bought shares of **Baytex Energy** ([TSX:BTE](#))(NYSE:BTE) in mid-2014 have lost about 96% of their investment, and the stock keeps plunging. Making up for such a big loss can take many years, so an investor who had invested most of their RRSP in Baytex in 2014 and planned to retire soon may have to delay their retirement by a couple of years.

Energy stocks are correlated to oil prices, so they are volatile since oil prices are volatile. You may hold a little portion of your RRSP in those stocks, but you shouldn't invest all your money in them if you don't want to risk losing a big portion of your money before your retirement.

## Starting to contribute too late

The earlier you start contributing to an RRSP, the better. When you are young, you have many years until your retirement and thus have more time to grow your savings. Investing for more years will allow for bigger compounding of returns. A little amount can grow to become a big amount after several years.

In addition, you can take more risk when you are young, because you have time to make up for your losses. You can focus on growth and allocate a higher proportion of your portfolio to stocks. If things go better than expected, you could even retire earlier than planned.

So, invest wisely and start contributing early to benefit the most from your RRSP.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

### TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:RY (Royal Bank of Canada)

### PARTNER-FEEDS

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### **Date**

2025/08/27

### **Date Created**

2019/02/11

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