Millennials: 3 RRSP Mistakes to Avoid While You're Still Young

Description

It's official: millennials are coming of age. Having been born between 1980 and 1995, the majority of the generation's members are now in their thirties. If you're one of them, it's time to start planning for retirement. Studies show that the earlier you begin saving for retirement, the more money you ultimately have when you get there. And with the oldest millennials now just 25 shy of 60, it wouldn't be wise to delay any longer.

If you're just getting into retirement investing, you may have heard the term RRSP thrown around. Perhaps you've even opened one. It's true that RRSPs are fantastic retirement saving vehicles, offering numerous tax benefits if you use them right. But used in ways they weren't intended for, they can easily become a trap. In this article, I'll be exploring three RRSP mistakes you'd be wise to avoid making, starting with one that you may not have heard before.

Investing in highly volatile stocks

In the stock market, there's often an inverse relationship between risk and reward. The higher your odds of doubling your money quickly, the higher your odds of halving it. It you don't believe me, look at marijuana stocks. Over the past year, stocks like **Canopy Growth Corp** have swung up and down 50% several times. And the same basic trend can be observed in the entire marijuana sector.

Your RRSP is not a good place to buy highly volatile stocks like this. Remember, retirement money is a need, not a want. You should not gamble on a stock that could wipe out your savings in an account that's supposed to be for retirement. If you want to do that, do it in a TFSA and try to keep such a play to less than 10% of your total holdings.

Ignoring dividends

When investing for retirement, it's best to buy stocks that deal dividends. One reason for this is that dividend stocks are often comparatively stable. When it comes time to retire, you'll need to make mandatory withdrawals through a RRIF, and when that time comes, you'll ideally want to withdraw cash holdings rather than being forced to sell your stocks. As dividend stocks pay cash, you can draw on that instead of having to sell a chunk of your portfolio every year. A high-yield stock like **Manulife Financial** (TSX:MFC)(NYSE:MFC) can be a great pick here, as its nearly 5% yield exceeds the mandatory withdrawal requirement for a 71-year-old.

Not contributing enough

A final big mistake to avoid with your RRSP is not contributing as much as possible. Remember: one of the big benefits of RRSPs is that you get a tax deduction up to a certain level each year. With the upper limit being around $26,230, that's an awful lot of tax you can potentially deduct. Of course, you need to weigh your RRSP contributions against all your other financial obligations. It's not a good idea scrimp on daily necessities for the sake of getting your RRSP as high as possible. Still, having your RRSP well-funded is a worthy goal.

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TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
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