The #1 RRSP Mistake Canadian Retirees Are Making Today

Description

Canadian retirement investors have long relied on RRSPs to provide stable, tax-deferred income for their golden years. Offering generous tax deductions as well as tax-deferred gains, they're the best account for long-term retirement planning.

However, to this day, many Canadians are making a number of mistakes with their RRSPs. Whether it's withdrawing funds too early or not contributing enough, many investors are doing things that limit their tax benefits.

However, quite possibly the biggest RRSP mistake Canadian investors make has nothing to do with taxes at all.

The greatest mistake: investing in high-fee mutual funds

High-fee mutual funds are a major drain on RRSP returns. Unfortunately, too many investors get sucked into them unwittingly without knowing the risks.

Ever since 'A Random Walk Down Wall Street' was published, it's become increasingly common knowledge that most money managers can't beat the market.

However, many active mutual funds *still* charge huge fees for under-performance, resulting in investors' holdings being diminished by both management fees and lacklustre returns.

Why it's such a killer

The biggest problem with high-fee mutual funds is the fees themselves. Whereas passively managed index funds like the **iShares S&P/TSX Capped Composite Index Fund** charge fees as low as 0.05% annually, actively managed funds can charge 2% or even greater.

If your fund has a 2% annual fee and the holdings perform average, then you're doing worse than average net of fees.

That’s not the only problem, however.

In addition to the fees, there’s the fact that high-fee funds are by no means guaranteed to beat or even meet the market. According to a recent study, only 15-20% of funds ever outperform the benchmark.

If you buy a fund that doesn’t outperform, any fees you’re paying above the tiny MER of an index ETF is essentially wasted money.

What to do instead

The most obvious recommendation for investors who want to avoid getting destroyed by fees is to invest in low-fee index ETFs. Funds like the aforementioned iShares **S&P/TSX Capped Composite** fund charge miniscule fees that most investors won’t even notice. As they’re tied to major indices, the returns are almost guaranteed to be average.

However, for the more adventurous, there’s still another option:

Buying individual stocks.

Picking your own stocks is the exact opposite of diversifying with low-fee index ETFs. However, putting a small portion of your portfolio in safe, government regulated, high-barrier-to-entry blue chips is a good way to boost returns.

Consider **Fortis Inc** (TSX:FTS)(NYSE:FTS) for example. With a highly government-regulated revenue stream, it enjoys a built-in economic moat and virtually guaranteed sales. As a utility, it provides a service that people can’t cut out completely even in the worst of times.

As a multi-national with holdings in Canada, the U.S. and the Caribbean, it enjoys geographic diversification. With an uninterrupted 45-year track record of raising its dividend, it’s among the most dependable stocks on the TSX.

While buying individual stocks is often thought of as risky, not all stocks are created equal: buying FTS shares is a completely different ball game from investing in tech IPOs or other speculative investments. And if you choose to do so, your management fees will be exactly zero.

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1. Dividend Stocks
2. Investing

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Author
andrewbutton