Canadians: Are You Making These 3 Massive Retirement Mistakes?

Description

Chances are, your financial goals revolve around two or three big things. You're either saving up to buy a house, saving for your children's education, or, the big one, you're putting cash aside for retirement.

There isn't room for a lot of error when working towards these big goals. A disappointing investment or other serious misstep could be the difference between your dream home and something very average, or the difference between a prosperous retirement and something that relies on CPP payments to make ends meet.

Let's take a closer look at three common retirement mistakes thousands of Canadian investors are making — decisions that collectively cost these folks billions of dollars in retirement savings.

Not utilizing proper accounts

Many Canadians have properly utilized RRSPs by contributing to them during high taxation years and withdrawing during leaner years. This is a great strategy to minimize tax over your lifetime.

But saving for retirement is now simpler than ever. All you really need to do is max out your TFSA over the long term and not have to worry about taxes when funds are withdrawn from the account. Remember, anything taken out of a TFSA doesn't have a tax liability. If you take out $50,000 per year to fund your retirement in 30 years, you'll end up with $50,000 in your back pocket.

Despite this massive TFSA advantage, there are many Canadians who still contribute to their RRSPs first. This is a big mistake. Utilize the flexibility of your TFSA and then, if there's money left over, feel free to use it to contribute to your RRSP.

Lumpy savings

Too many investors aren't consistently putting cash aside for retirement each and every month.

I completely understand why. Most people have a long list of wants and only a limited amount of capital. So, retirement savings get put on the back burner, while cash goes out the door paying for house renovations, vacations, and other unnecessary expenses.

The easiest way to guard against this is to make retirement savings ridiculously easy. Set up an automatic withdrawal system to contribute every time you get paid. This will ensure this important financial goal remains a priority. The best part? You likely won't even miss the money. It's amazing how quickly people adapt to having a little less spending money.

Being too conservative

Even though we're more than a decade removed from the horrific Great Recession of 2008-09, many investors are still nervous about a potential market crash. They just can't shake those terrible memories.

In response to this, many investors — especially millennials — have embraced ultra-conservative portfolios consisting of bonds, GICs, and other assets that are only designed to store value. There's little hope these investments will generate high enough returns to fund a middle-class retirement.

There's no need to be hyper-aggressive, either. A portfolio stuffed with conservative dividend-paying stocks will provide solid returns with very little risk of the underlying stock price collapsing 30-50%. And if an investor still feels a little nervous, a reasonable bond allocation of 20-30% of assets can provide some protection without limiting upside all that much.

Take a stock like **Loblaw Companies** (TSX:L), Canada's largest grocer with more than 2,400 locations across Canada operating under brands like No Frills, Real Canadian Superstore, Provigo, Maxi, and Shoppers Drug Mart.

Loblaw is the kind of stock that will hold up well during a downturn. Its shares actually went up during the worst of the carnage back in the Great Recession. This makes sense, since people tend to eat at home more during an economic downturn, which is good for grocers.

Despite being a more conservative stock, Loblaw has delivered solid returns over the last decade. Including reinvested dividends, Loblaw shares have delivered a 12.9% annual total return since September 2009. That's enough to turn a $10,000 investment into one worth more than $33,000.

The bottom line

Avoiding each of these retirement mistakes will make any investor richer over the long term. Doing so yourself will easily ensure thousands extra when it's time to retire for good. Who couldn't use a little extra cash during their golden years?

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