Half of Canadians Are Making 1 Horrible Investing Mistake

Description

Over the last decade, Tax-Free Savings Accounts (TFSA) have been touted as the ideal investment portfolio, and there's good reason. Since 2009, investors' contribution room in TFSAs has increased every year, reaching $63,500 this year. That's a fair bit of funds to work with, that the government cannot touch.

This has left many Canadians feeling that the Registered Retirement Savings Plan (RRSP) is now all but obsolete. But that's where about half of the population is wrong. While there are many advantages to the TFSA, there are many reasons why Canadians should be investing in an RRSP as well.

Let's start off with the contribution room. While putting $63,500 aside may seem like a lot now, if you're setting yourself up for a comfortable retirement that space can become limited fairly quickly. A good goal for investors is to put aside about 10% of their salary each month in their portfolio. That means if you make $40,000 per year, it about would take up the contribution room increase available in your TFSA each year.

But what if you make more than that? You're likely to want to increase those payments as you age and retirement gets closer. That means the TFSA is a limited space for you to put your money aside.

Granted, if you are a younger investor with only limited funds to invest, then I would definitely choose a TFSA over an RRSP. However, if you are starting to think about retirement at all, then an RRSP is basically a must.

After all, they are both designed to help you save. RRSPs also grow tax free, until you retire. Any contributions you make are deductible from your income tax, something the TFSA doesn't offer. Another feature? You can convert your RRSP into regular payments upon retirement. And if you are in need of cash when you purchase a home, pay for education, or go on maternity leave, you can still take out that money without being penalized.

So where should you put your money? If you're starting out early, I would recommend a steady investment that can make you cash over the long term, especially if you are looking to reinvest your funds on a regular basis.

In that case, the **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB) is a great place to start. The goal of this ETF is in the name: low volatility. That means even if the markets fall, this ETF will likely only experience a slight blip. We've already seen that happen over the course of its existence.

While you also likely won't see any huge jumps in share price, you can sleep better knowing that your investment is going slowly and steadily in the right direction for the time when you need to retire.

TFSAs can looking very tempting with that "tax-free" headline, but if you're thinking long term and hoping to retire with a significant amount of cash set aside, then as an investor you need to consider opening up an RRSP. Your retirement will thank you.

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alegatewolfe