TFSA Investors: This Massive Investing Mistake Could Cost You Over $1 Million

Description

It's tough for a regular investor to save for retirement. The path is littered with obstacles designed to separate you from your money.

The biggest obstacle, of course, is life. We only have so many resources, yet virtually unlimited wants. It's tough to balance saving for the future with living your best life today.

And then, just when life seems to be going our way, something unexpected suddenly throws us a curve ball, and a job loss or health issue impacts our financial picture in a big way.

This is why it's so important to be an efficient saver and good investor. Time is precious, and we must take advantage of the opportunities we have to put money away for our future selves.

A big part of saving successfully is avoiding mistakes. And yet, there's still one mistake I see investors making over and over again, something that could end up costing a whole bunch of money over their lifetime.

Keep costs low

On the surface, paying 2% fees on your investments doesn't seem like a big deal. It's only 2%, after all. And if the fund manager does a good job, then who cares what the fee is?

Canada's mutual fund industry has pushed this lie to Canadian savers for generations now and have siphoned off billions from our collective retirement savings. That's good for shareholders, but bad news for the rest of us.

The fact is that unless you're a mutual fund picking dynamo, chances are your cash will be put in average funds that, without fees, will approximately match the performance of the index. Once we introduce a 2% fee into the equation, a decent fund will suddenly underperform significantly.

The numbers don't lie. Say a diverse mutual fund that invests in Canadian stocks can be expected to post a 9% compound annual growth rate going forward. After the fund's fees are paid, the return drops to 7%. Over a lifetime of investing, this can cost the average investor a fortune.

Say your retirement strategy is to just max out your TFSA every year — a method favoured by a lot of millennial investors. You put $6,000 every year away and invest it. The difference between getting a 9% return and a 7% return really adds up.

If you invest in a fund and get a 7% annual long-term growth on your money, you'll have a nest egg of $1.37 million in 40 years. That's not a bad result, and even after inflation rearing its ugly head, should be pretty close to enough for a comfortable middle-class retirement. If not, it's still a pretty good start.

But at a 9% return, you end up in much better shape; $6,000 invested annually over a 40 year investing horizon will get you a TFSA worth $2.4 million if you get a 9% annual return on your money. That's right, a mere 2% annual boost in returns from 7% to 9% will increase your TFSA by more than $1 million.

This is why it's so important to get investing costs under control. One seemingly small decision is enough to increase your net worth substantially. Even in 40 years, $2.4 million will still be a lot of money.

The bottom line

Investment fees really add up over time. And yet, many savers hardly pay attention to them, choosing instead to deny the inconvenient truth.

If you're looking to an incredibly easy way to boost your returns, lowering your investment fees is one of the most effective things you can do. This one decision could make you $1 million (or more!) over your investing lifetime.

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