RRSP Deadline 2020: 2 Strategies You Can Use When Investing

Description

Your RRSP serves as a great investment vehicle for sheltering some of your earnings from taxes. The RRSP contribution deadline for the 2019 tax year is just around the corner on March 2. If you miss out on the deadline, you will lose on the opportunity to benefit from a tax break. Here are two practical strategies to help with last-minute investing.

Diversify your holdings

The age-old saying "don't put all your eggs in one basket" particularly holds true when it comes to investing. However, those in a hurry often end up forgetting the wisdom of this saying and end up putting all their money in a single stock. Markets tend to be highly unpredictable, and even the "safest" options can flip over and put your earnings in the negative.

To shelter your RRSP investments from the volatility of the market, it pays to afford the time to do proper research and diversify your holdings across different asset classes and sectors. In terms of assets, your RRSP investments should be a combination of both stocks and bonds.

Stocks offer potentially higher earnings, while bonds are generally safer. The ratio of stocks to bonds in your RRSP account will depend on your risk tolerance.

In regards to stocks, diversify your portfolio by distributing your investments across different sectors. With the inevitable market crash well on the horizon, a healthy RRSP should have stocks across eight to 10 different industries.

Consider also diversifying in terms of stock types. Three of the most common ones are growth stocks, value stocks, and dividend stocks.

Growth stocks tend to be that of relatively new companies focused on rapid appreciation in value. They generally tend to have the highest risk but also the highest potential upsides.

Value stocks are those stocks that, for some reason, are undervalued for the time being. Timely investing in them can bring a nice upside when their value rebounds.

Dividend stocks don't appreciate much in value but offer a portion of their value in dividends, bringing you steady cash flow.

Lower your fees

Fees can eat up a sizable portion of your RRSP returns, and naturally, you'll want to minimize them as much as possible.

One of the ways you can do so is by opting for stocks instead of mutual funds. By holding mutual funds, you pay for a management expense ratio (MER), which, at an average of 2.14% in Canada, is one of the highest in the world. For comparison, the average MER rate just down south in America is 0.6%.

In addition to that, consider the fact that mutual funds underperform the stock market over the long haul on average.

Toronto-Dominion Bank is an excellent alternative to mutual funds, offering both a nice (and growing) yield of 3.91% and high dependability. Its stock value has also seen plenty of appreciation, more than doubling from $31.5 at the start of 2010 to $75.75 at the time of this writing.

Summary

For many Canadians, RRSP accounts are one of the most essential instruments for retirement planning. Pursue the two above-mentioned strategies to avoid making any big blunders with your last-minute investments.

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