Here’s What to Do With Your 2020 Tax Refund

Description

For many investors, February and March provide an interesting time of year — one which allows for a “windfall” of sorts for those who have contributed to a Registered Retirement Savings Plan (RRSP) and will receive a tax refund. Just what to do with this extra money can be a point of consternation for some.

Investor or not, the temptation to finally go on vacation or buy that coveted 80? TV is real, and while many find the internal fortitude to ignore their urges and stash all that cash away for retirement or investing purposes, spending some of this money is a reality for most. On this note, I’d recommend paying down any high-interest credit card debt first before making discretionary purchases.

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For those with the ability and inclination to do so, I’d recommend putting an allocated percentage in a registered account like a TFSA or RRSP, for those who want to get started on next year’s tax deductions and take advantage of compounding within these registered accounts. I’d also recommend deciding on what percentage to stash away beforehand, and sticking to it. Investing is all about patience, after all, so finding a percentage of your refund you wish to invest permanently is important. Set it and forget it.

With this new cash now invested in a registered account, the questions become harder — i.e., where to put this money to work, or whether to put this cash to work at all. After all, if you’re fully invested, it may make more sense to keep a wad of cash available to nibble away on lower prices over time, especially if you find yourself in the defensive/bearish camp, like me. For most, it will make sense to put most, if not all, of this cash to work to generate long-term returns.

Investors putting their cash to work have a slew of options to choose from, and depending on one’s age, income needs, propensity for risk, and other factors, the right options for each individual investor will vary. On this note, it’s hard to recommend a “correct” course of action, though there are a few great options out there for different investor types I’ll point out here.

For dividend investors, or those who are extremely conscious about long-term income needs in retirement, a company like **Fortis** is an excellent choice. This utilities company is closing in on five decades of dividend increase, meaning investors can expect their income to grow over time, helping to combat inflation. This is also an extremely stable business, with low risk of disruption for the coming decades. Fixed-income options such as bonds offer yields that are simply far too low today.

For investors looking for solid diversification and are more passive by nature, buying into an exchange-traded fund like **iShares Core MSCI World Ex-Canada ETF** can provide non-Canada exposure to a portfolio, offsetting any home bias that may be present in one's portfolio.

Stay Foolish, my friends.

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