



RRSP or TFSA: In 2020, Which 1 Is Right for You?

Description

The Canadian government has introduced many ways for its citizens to earn money during their retirement days. The Tax-Free Savings Account (TFSA) and the registered retirement savings plan (RRSP) are ideal tools for investment and savings to help Canadians [save more money](#).

The TFSA and RRSP are both primarily investment accounts. Neither of them has to be strictly a savings account. Each of them has certain qualities that make the account types suitable for different financial goals. I think it is better if you use both of them in tandem because both plans can complement each other.

Short-term growth of wealth

The most significant advantage you have with the TFSA is its flexibility in terms of getting through to your financial goals in a shorter period. If you focus on growing your wealth short-term solely and want faster access to your money when you need it, the TFSA can help you achieve that.

That said, the TFSA is incredibly helpful for long-term goals as well. For instance, you can invest in a reliable and high dividend yield stock like **American Hotel Properties REIT** ([TSX:HOT.UN](#)). The stock is trading for just \$6.87 at the time of writing with a juicy dividend yield of 12.50%.

The \$536.74 million market capitalization stock has a significant portfolio. American Hotel Properties REIT owns more than 100 hotels across almost 90 cities throughout the U.S.

The company has been aggressively expanding in the past few years, targeting higher-quality assets in cities. The high payout ratio makes American Hotel Properties a bit of a risk.

Still, the chances are that the stock will exhibit significant capital gains once the market figures out that the stock presents a decent buy opportunity.

In terms of short-term goals, shares of American Hotel Properties can be an exciting prospect due to its high dividend yield. Its potential capital gains also make it an attractive option you might want to

consider for your TFSA in the long run.

Long-term financial goals

The RRSP is another phenomenal investing vehicle, but one that warrants a [disciplined and long-term approach](#) to be useful for your financial goals. As you contribute to the account, you are effectively growing your wealth in a tax-deferred account.

The difference between the TFSA and the RRSP is that the RRSP does not offer tax-free withdrawals like the TFSA. Any money you take out from your RRSP will be treated as income and taxed accordingly.

If you're investing for your retirement, that should not matter. This is why the RRSP is more suitable for long-term financial goals as an investment vehicle.

When you're choosing assets to hold for a long time, you need to be careful about your decisions. You should select a stock that might not offer much in terms of dividends, but is reliable enough to grow your wealth for a long time safely. To this end, the **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) could be a fantastic option.

It is the third-largest Canadian financial institution by market capitalization and a reliable stock with a fantastic dividend streak of almost 190 years. The \$88.51 billion market capitalization bank's stock is trading for \$72.48 at writing. It offers its shareholders an attractive dividend of 4.97%.

Scotiabank has a terrific track record. In the past two decades, the stock has delivered shareholders returns of more than 1,000%. While there are no risk-free investments, Scotiabank has relatively been a reliable asset trading on the TSX.

Foolish takeaway

You can use both the TFSA and RRSP alongside each other to grow your wealth. The TFSA offers you faster growth of wealth, while the RRSP requires a disciplined approach in the long run.

If you're more inclined toward short-term growth, a high-yielding dividend stock like American Hotel Properties REIT could be a suitable asset to invest in and contribute to your TFSA.

For strictly long-term prospects, a reliable stock with an extensive history of dividends like Scotiabank can be fantastic in your RRSP.

Choosing between the two is a matter of personal preference, goals, and your most important financial goals.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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Date

2025/06/30

Date Created

2020/03/02

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