



## CERB: 2 Massive Mistakes Investors Ought to Avoid

### Description

The Canada Emergency Relief Benefit (CERB) has been extended by an extra two months by the Canada Revenue Agency (CRA). For many eligible Canadians, they'll have plenty of leftover CERB cash that they can use to invest in the stock markets as it continues to rally with help from a supportive U.S. Fed.

Online brokerage activity has surged amid this pandemic, likely because many relief payment recipients have excess cash that they're looking to put to work. But with the markets as volatile as they are, is it even a good idea to invest your CERB in the stock market? Or is it a bad idea that'll leave many in tears?

The answer largely depends on your unique financial situation.

But if you're like some Canadians with leftover CERB cash just sitting around, I'd say yes, it's a good idea to invest it. But that's assuming that you're actually planning to *invest* the funds and not *speculate* with them, which is likely what many beginner CERB investors have been unknowingly guilty of lately.

### Mistake #1: Speculating, not investing

Speculating your CERB money on all-or-nothing spec bets like **Air Canada** can be a dangerous endeavour, especially for beginner investors getting into the markets for the first time. It can result in a zero, and you may scare yourself into selling at a significant loss over the short-term.

Sure, the thought of huge gains in a matter of days or weeks is exciting, especially for newcomers to the stock market. But day or swing trading is not a profitable endeavour, especially for newbies who've yet to learn the basics about the world of financial markets.

It's very tough to make a living as a day trader. Oftentimes, many prospective traders go broke as they use real money to "play" the markets, as they play with options that they yet to understand fully. Heck, even seasoned traders find it difficult to make money in the markets over the short term, given the unpredictable nature of short-term market fluctuations.

Nobody saw the [coronavirus crash](#) coming. And nobody saw the relief rally in the face of a pandemic that [hasn't really gotten much better](#).

If you're going to invest your CERB money, please invest it and don't speculate with it. Invest it for the long term and have a time horizon that spans years, not months, and you'll be able to grow your wealth without risking your shirt.

## Mistake #2: Forgetting about the taxes you'll owe

CERB payments are taxable. If you're planning on investing all excess cash without setting aside a portion to account for taxes at the end of the year, you could be setting yourself up for trouble come tax time.

Sure, many new investors think they can outsmart other investors by getting out before everyone else. Buy low, sell high is the name of the game, after all. And with a name like Air Canada that looks to have bottomed out, it can seem impossible to lose money after such a drastic downfall.

Unfortunately, many new CERB investors will learn the hard way that just because a stock has fallen by a certain percentage, it doesn't mean it can't continue falling.

If you speculate with your CERB cash and a stock you've bet on implodes on itself, or the firm goes bankrupt, you may not have enough to pay for those CERB taxes as they come due.

## Foolish takeaway

Speculating with your CERB cash is a dangerous game. Using your CERB to speculate without setting aside a portion to account for taxes takes that danger to another level.

If you're looking to be a CERB investor, make sure you understand the difference between investment and speculation. Investing your CERB in long-term dividend-paying blue-chip stocks is not the same game as putting it all on a risk-on name like Air Canada with the expectation that it'll double in price because you think a coronavirus vaccine will land sooner rather than later.

Air Canada isn't necessarily toxic. It could be a wise bet if included as part of a balanced "barbell" portfolio. Unfortunately, many beginners are more inclined to chase short-term gains and are willing to go all-in on all-or-nothing bets that they may not realize could badly.

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