RRSP Investors: 1 Retirement Mistake You're Likely Making

Description

If you're nearing or in retirement, there is likely one major concern that outweighs all the rest, and that's money. You want to have enough savings to see you through for the rest of your life. It's why you have a Registered Retirement Saving Plan (RRSP) in the first place.

So, you want to keep that cash safe for you and for your loved ones. I get it. But the problem many retirees face is that they tend to them go for overly safe options and are missing out on huge opportunities that are arguably completely safe.

In short, retirees aren't taking on enough risk in their portfolio.

Risk doesn't mean risky

Now, when I say retirees aren't taking on enough risk, I do not mean you should take on risky stocks. If you're retired, you don't want investing to become a full-time job. That's what it would take to get into risky investing. And that's not what we recommend here are the Fool.

Instead, you need to find stocks that have a potential for larger returns, though they also have the potential to see a bit more market shakeup. But that's OK! Investors should always look at the market as a whole. Overall, the market trends upwards, not down. If you have a diverse portfolio and need cash fast, there are other stocks that will still be up, and you can sell if needed while the other stocks are down.

Outperformance

Things are different now. Decades ago, if you'd invested in cash and bonds, you saw great returns. But today, interest rates are so low that there is a huge return differential between cash and bond assets and stocks. Even if you were to hold bonds for decades, most TSX stocks would still outpace your holdings.

Furthermore, stocks have a long history of outpacing inflation. If inflation is around 2-3% per year on average, that would be a pretty poorly performing stock. You'd like to see something around 7% from most companies, leaving you with a solid 4% more than what you would see keeping your money in cash.

Combine compounding

Finally, when you take compounding into everything, you can make a killing in even a decade from stocks rather than cash or bonds. You can't reinvest cash if it just sits there. So, instead, finding stocks that you can hold for decades means you can take returns and dividends and reinvest them into the stock. That will see your nest egg rise repeatedly over the years.

A great option for risk-averse investors would be to invest in bank stocks. Yes, those stocks may fall during a financial downturn. However, the Canadian Big Six banks continue to fare as some of the best in the world. During 2008, banks were at pre-crash levels within a year, and the same is true between now and March 2020's market crash.

A great option to consider is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). The company is tied with the largest bank by market capitalization and has been expanding into wealth and commercial management as well in the United States. Right now, the company is fairly priced with a relative strength index of 60 and a price-to-book ratio of 1.5. It also offers a solid 4.23% dividend yield, which has increased at a compound annual growth rate (CAGR) of 9.81% of the last decade, with shares rising at a 10.89% CAGR during that time.

Bottom line

If you were to have invested $20,000 into TD Bank a decade ago, it would be worth $119,966.97 today by those figures. That's an enormous figure for any retiree! You don't have to be risky to add some risk to your portfolio. While it's true with almost no risk you'll see little lost in the long run, it's also true in that same time you'll see far fewer gains.

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