2 Massive RRSP Mistakes to Avoid Before Buying Stocks

Description

The Canadian population has long been having issues with debt and has not had much to show for in terms of savings for a rainy day. The pandemic came along in 2019 to turn the world on its head and gave a massive wake-up call to Canadians about the need to have long-term financial objectives and the discipline to follow through with them.

The reality check has since spurred Canadians into taking proactive measures to improve their financial positions. Savings in 2021 reached record levels, with the chief economist at Alberta Central reporting that savings in Canada have reached around $230 billion. A popular way to make the most of your savings is to park your capital in tax-advantaged and registered investment accounts like the Registered Retirement Savings Plan (RRSP).

Dividend investing is one of the best ways to make use of the contribution room in your RRSP. However, not many people manage to fully capitalize on the advantages offered by the RRSP, because they mishandle their accounts. If you are planning to use your RRSP as an investment vehicle for your retirement goals, there are a few mistakes that you should avoid making to take full advantage of your account.

Today, I will discuss two massive RRSP mistakes you should avoid before buying stocks for your retirement portfolio to make the most of the account's tax-advantaged status.

1. Not being aware of contribution deadlines

You should ideally use the contribution room in your RRSP to store investments instead of cash. You can deduct your RRSP contributions from your taxable income. However, it is crucial to understand that there is a contribution deadline of March 1 to deduct the RRSP contributions from your taxable income. Make sure to make RRSP contributions for a given tax year before the March 1st deadline.

2. Short-term investing

Another crucial RRSP mistake many investors make is investing for the short term. The tax-advantaged status of the RRSP is designed for long-term investing. When making your RRSP contributions, ensure that you are investing money that you won't need soon.

Making any withdrawals from your RRSP permanently lose that contribution room. You also lose the impact of compounded growth for your investments, because you cannot re-contribute an amount once you withdraw it from your RRSP.

Suitable long-term RRSP holding

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) stock could be an ideal asset to buy and hold in your RRSP for the long run to reach your retirement goals. Scotiabank stock is one of the Big Six Canadian banks. It has a long streak of paying shareholder dividends. It also boasts the potential to provide you with significant upside in the coming years through capital appreciation.

Scotiabank has a growing international segment in the Pacific Alliance countries of Mexico, Peru, Chile, and Columbia. These countries boast a growing middle-class population, and their economies are expected to grow faster than G7 countries in the coming years. Scotiabank's presence in these companies as a preferred lender in the region could translate to substantial growth for the bank for years to come.

At writing, Scotiabank stock is trading for $82.68 per share, and it boasts a juicy 4.35% dividend yield.

Foolish takeaway

Remember that the wealth growth from investments made in your RRSP can provide you with tax-free returns for as long as your investments remain in your account. Any early withdrawals from your RRSP will be subject to tax.

You should be careful about remembering the RRSP contribution deadlines to effectively claim the tax deductions during tax season and find long-term buy-and-hold assets that could provide you with reliable returns. Scotiabank stock could be an excellent holding for your RRSP for this purpose.

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