Should You Invest Your Down Payment in Stocks if You Can't Find a Home in 2022?

Description

To save enough for the required down payment on a home (5% of the first $500,000 and 10% after that) is a feat in itself, let alone finding a home after you've saved the money. For the average home price in Canada ($720,850), that means you'll need around $47,050. And that's the *minimum* down payment for that price.

With home prices continuing to climb in certain areas, along with short supplies, that large sum of money could be sitting in a savings account longer than you feel comfortable with. Savings account might be secure, but they certainly won't grow your money. Why not put it in stocks, you might think, and double—nay, *triple*—your down payment?

I'll go ahead and say that there's no guarantee your down payment will grow more in stocks. But depending on your timeframe, it might not be a bad idea to put a portion in a high-risk investment. Let's take a look at when you should invest your down payment and when you shouldn't.

When you should invest your down payment

First off, let's be clear: investing your down payment comes with risks. Buying $47,050 worth of stocks could mean growing your money, true. But it could also mean losing a significant amount.

That said, for Canadians who don't plan to buy a home in the next five years, investing a portion of your down payment might not be a bad idea. Because your timeframe is longer, you have more time to recover from a market downturn should that happen. And because you are planning to buy a home this far in advance, you want to outpace inflation, which stocks have the potential to do.

But notice I said invest a “portion” of your down payment. You don’t have to go all in. In fact, to mitigate risk, you probably shouldn’t invest your entire down payment. A better strategy would be to investsome of your money in stocks while keeping the rest in low- or no-risk investments, such as GICs orhigh-interest savings accounts.

Keep in mind, if you’re a first-time homebuyer, you could use money in your RRSP as your down payment. Under the Home Buyer’s Plan, you’re allowed to withdraw $35,000 to use as your down payment (if you have a spouse, then you can both withdraw $35,000). This is money you could have invested in stocks, along with a much larger sum.

When you *shouldn’t* invest your down payment

I would strongly advise against investing your down payment if you’re looking to buy a home in the next two years. Even though inflation is technically eating at your savings, you might lose more money by buying risky investments.

If you’re worried about inflation (or rising home prices) weakening your down payment, you might want to continue adding money to your down payment fund. You could also try a no-risk investment, like a GIC, though, keep in mind, GICs have withdrawal restrictions.

If you’re certain you want to invest your down payment (no matter your time horizon), then consider buying shares of an ETF or index fund. Since funds are baskets of stocks, they come pre-diversified. That means they’re technically less risky than buying individual stocks. Of course, with greater security comes less chances at hitting extraordinary gains. But if you’re investing your down payment, you shouldn’t aim to get rich. At the very least, you should aim to outpace inflation.

Should you invest your down payment?

Again, I would consider your time horizon. If you’re going to buy a home in 2022 or 2023, then you probably shouldn’t invest your money in stocks. Instead, you might want to consider keeping it in a high-interest savings account. Though you won’t earn much back in these accounts, you also won’t *lose* anything.

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