Best Way to Invest Money in Canada: 7 Investment Options

Description

The investment world can be complicated, jargon-filled, and downright scam-ridden at times. That being said, it can also be a wonderful hobby that can help you meet your long-term financial goals, whether that be retirement or a down payment.

Investing can be done with any portfolio size, whether you're investing $1,000 or $1 million. Within the investment world, you have a variety of different choices, or assets you can put your money to work in.

Here are seven of the best ways to invest money in Canada.

7 investment options in Canada

The following asset classes all provide different risk/return profiles. That is, some might be high risk, yet have the potential for great returns. Others may have lower expected returns, but also have commensurately lower risk. Some may be easy to buy and sell, while others might be more difficult to trade.

Regardless, here are seven investment options to know about before you start investing:

1. Stocks

Stocks are the shares of publicly traded companies. Ownership of stocks grants you, the shareholder, voting rights proportional to how many shares you hold and possible participation in profits distributed by the company, called a dividend. With stocks, your goal is to hopefully sell your shares for more than what they're worth later down the line.

There are many different types of stocks. In general, stocks can be categorized by:

- **Market capitalization** (share price * outstanding number of shares), whether micro, small, mid, or large cap.
- **Stock market sector**, which include energy, materials, industrials, utilities, healthcare, financials,

consumer discretionary, consumer staples, information technology, communication services, and real estate.
- **Style**, which is usually growth versus value, or sometimes a blend of both.
- **Geography**, whether domestic or international.

2. Bonds

Bonds are debt securities issued by corporations or government agencies. When you purchase a bond, you're essentially loaning money to the bond issuer as an "IOU" of sorts. In return, the bond issuer pays a semi-annual interest called a coupon. When the bond matures, you receive your initial investment back.

As an asset class, bonds in the aggregate tend to be less volatile than stocks. In addition, some types of bonds hold a low to negative correlation with stocks, meaning that when stocks zig, they can zag. As a result, bonds are often used to reduce fluctuations in a portfolio and protect against a market crash. Investors can rebalance between bonds and stocks to boost the returns of their portfolio.

Like stocks, bonds can come in many forms. In general, bonds can be categorized by:

1. **Issuer,** which can be corporations, or municipal, provincial, and federal government entities.
2. **Credit rating**, which is an assessment by a third-party of how likely the bond issuer is to default on the debt. A AAA, AA, A, or BBB rating is considered "investment grade" and safer to purchase.
3. **Maturity and duration of the bond**, which determines how long it takes for the bond to mature and how sensitive the bond's price is to changes in interest rates. Bond prices movements are inversely related to interest rate changes, with longer-duration bonds being more sensitive.
4. **Yield of the bond**, which can be measured by many different metrics. The most common is yield-to-maturity, which is the total return an investor can expect from a bond if held until it matures.

3. Funds

Investors who don't want to buy individual stocks and bonds can buy different types of funds. These funds can hold stocks and bonds in a "basket" of sorts. When you purchase shares or units in a fund, you're receiving a portion of that basket, with exposure to its underlying assets.

Funds can be structured in two forms: mutual funds or exchange-traded funds. They can employ passive or active investment styles. The former methodically tracks an external index or benchmark, while the latter attempts to outperform the market using various strategies.

There is a cost for funds, though, called the management expense ratio (MER). This is the percentage fee deducted annually from your investment. For example, a 0.10% MER works out to $10 in fees for a $10,000 investment. Keeping this as low as possible is critical to maximizing long-term returns.

4. Property

Real estate investing in Canada can offer investors a unique stream of income and return. The most common way to invest for investors with enough capital and access to credit is via an investment property. In this case, investors can purchase real property with the goal of flipping it for a profit short-term or holding on to it long-term and renting/leasing it out.

Investors with smaller portfolios can still gain exposure to real estate via real estate investment trusts (REITs). These are shares of publicly traded investment companies that hold a portfolio of real estate assets. By law, they are required to payout a substantial portion of their income to investors. Thus, REITs are a great way of attaining high passive income via the dividends.

5. Commodities

Commodities are basic goods vital to commerce, the economy, and industries. Examples include agricultural commodities like wheat, soybeans, and corn; energy commodities like oil and natural gas; and metals like gold, silver, and copper.

Commodities are a volatile but useful investment. Their prices can swing wildly in the short term. However, their returns often have a low correlation to stocks and bonds, which can make them a useful addition to a portfolio for increased diversification.

Investors can invest in some commodities physically. For example, buying gold and silver bullion or commemorative coins. Other commodities, like oil, can only be invested in via the use of complex funds that employ derivatives like futures contracts. These instruments are suitable for advanced investors.

6. Cryptocurrency

Cryptocurrencies are digital currencies or tokens secured by cryptography, often in the form of a decentralized network known as a blockchain. When it comes to investing, cryptocurrencies are a volatile asset with the potential for great returns but also high risk.

There are thousands of different cryptocurrencies out there. The two largest and most well-known ones include Bitcoin and Ethereum. Other smaller coins are usually labelled “altcoins”. For lower price volatility, “stablecoins” attempt to maintain a flat value by being pegged to some other asset.

Canadian investors interested in cryptocurrencies can purchase tokens on a variety of brokerage platforms. Keep in mind that cryptocurrency investing is highly speculative. Many cryptocurrencies have gone bust or proven to be scams. Even successful projects tend to be highly volatile.

7. Art and collectibles

Canadian investors can also put their money in alternative investments in the arts and collectibles section. The possibilities here are endless. Some common options include luxury watches, luxury cars, trading cards, vintage art, fine alcohol, jewelry, sport memorabilia, and designer clothing.

These types of alternative investments can be illiquid. That is, they can be difficult to buy and sell quickly without lowering your price too much. As well, fair valuations can be opaque, as it can be difficult to determine what the correct price is at a given time due to the limited market.

Where is the best place to invest your money in Canada?

There's no one-size-fits-all answer to this question. Whichever asset you pick (or combination of assets) should always be dependant on three factors:

1. **Investment objective**: What is the reason you are investing? What are you investing for?
2. **Time horizon**: When do you need the money by?
3. **Risk tolerance**: How much of an unrealized loss in an investment can you bear, and how long can you endure a potential downturn?

Answering these questions honestly will help you determine which assets to pick, and in what proportions relative to each other. This is called "asset allocation", and it plays a large role in determining how much diversification your overall investment portfolio has.

PP NOTIFY USER

1. cleona
2. metienne
3. tmfbwelch

Date
2025/08/12
Date Created
2022/11/01
Author
tdong