How to Invest $1,000 in Canada

Description

For Canadians who want to make their money work for them, $1,000 is a great place to start investing.

It's a slow start, sure, but as others have said before, a slow start is still a *start.* To help you put that money to work, we've outlined six great places to invest $1,000.

What to do before investing $1,000

There are a few things you'll want to do before you start investing your hard-earned $1,000.

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Get out of high interest debt

Before you start investing, it's financially wiser to pay off all high interest debt, such as credit cards and personal loans. As legendary investor Warren Buffett has noted, high interest debt is basically a high performing investment in reverse: instead of earning money off compound interest, you're *spending* money on money you've borrowed. The longer you take to pay this off, the more you'll pay in overall interest.

Set investing goals

Before you dive into investing, make sure you have a solid plan. You should be able to answer the question "Why am I investing?".

Of course, you want to make money. But is this money for your retirement plan? Or for short-term goals, like buying a house? Your answer to this question will determine how aggressively (or conservatively) you invest.

Adopt an investment strategy

Alongside setting investing goals, figuring out the best investment strategy for you is an important step. For example, if you want to earn passive income from your investments, then you may want to adopt a dividend investing strategy, or even invest in DRIP stocks.

Where to invest $1,000 in Canada

Now that you're ready to invest, here are six places to invest $1,000.

1. Invest in an RRSP

Perhaps the best place to start investing $1,000 is with a registered retirement savings plan (RRSP).

An RRSP is a government-sponsored retirement account that comes with immense tax benefits. For one, you won't pay capital gains taxes on earnings made within your RRSP, no matter how much you earn, and your contributions are tax deductible. You can contribute up to 18% of your previous year's earned income each year into your RRSP, or $29,210 ($30,780 for 2023), whichever is less.

Why start with your RRSP? For one, many employers offer group RRSPs with matching contributions. If that's the case, your $1,000 could turn into $2,000, simply by asking your employer to take $1,000 out of your paycheque. That's right. You could effectively double your money in a single contribution if your employer offers this benefit.

You might also get a hefty tax reduction, too. The CRA will allow you to deduct your contributions from your taxable income, which could help you cut your tax bill. That's huge. If you contribute enough to your RRSP, you could knock yourself into a lower tax bracket, helping you save an immense amount on taxes.

For instance, if you're an individual who made $50,000 in 2022, you would technically fall into the 20.5% tax bracket for 2022. But if you contributed $1,000 of your earned income to your RRSP, you would drop your taxable income to $49,000. That would bring you down to the 15% tax bracket (those who earn $49,050 or below), helping you save on taxes.

Keep in mind with the RRSP, you contribute before-tax dollars, meaning you'll pay some taxes when you withdraw money in retirement. The amount you pay depends on your marginal tax rate at the time of withdrawal. Ideally, you won't be making as much income in retirement as you are now, which will put you in a lower tax bracket. As such, you'll pay less in taxes on withdrawals — much less than what you would have paid had you not contributed the money.

2. Invest in your TFSA

If you think you'll be in the same tax bracket in retirement as you are now, you might be better off socking away that $1,000 in a tax-free savings account (TFSA).

Like RRSPs, TFSAs are government-sponsored retirement accounts that come with immense tax benefits. Whatever money you put into your TFSA will grow tax-free, and you won't have to pay taxes when you withdraw it. In addition, the money you withdraw can be re-contributed to your account the year after you take it out.

If there's one thing that sets the TFSA apart from the RRSP, it's flexibility. Unlike RRSPs, which are really designed for long-term retirement savings, TFSAs have no withdrawal restrictions. You can take money out of your account to buy anything, whether that's retirement, a house, a car, or a European vacation.

If you have $1,000, investing in a TFSA is a great way to start investing for your future. For 2022, you can put a total of $6,000 in your TFSA (for 2023 it's $6,500), though if you don't use all that space, it will carry over next year.

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3. Invest in a non-registered retirement account

Of course, you might have already maxed out your RRSP and TFSA. If that's the case, you can still invest that $1,000 wisely by opening a non-registered retirement account.

With a non-registered retirement account, you can still benefit from investment earnings gains, though you'll have to report capital gains on your annual tax filing. You won't get the same tax benefits as TFSAs and RRSPs, but you can invest your money wisely, helping you outpace inflation.

Within a taxable brokerage account, you could invest in individual stocks, exchange-traded funds (ETFs), or numerous other types of investments. You'll most likely open your non-registered retirement account through an online brokerage.

Be sure you check the trading fees and commissions on a brokerage account before you settle on one. With Canada's top brokers, you often pay low trading fees, with no account minimums and ample amounts of research and educational materials available to you.

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4. Build an emergency fund

Perhaps, you're not ready to start investing. Instead of buying stocks or ETFs, you need to set this money aside for *emergencies.* If that sounds like you, consider placing your $1,000 in a high-interest savings account (HISA) or an account that's fairly easy to access.

While you won't get the same rate of return on your $1,000 as, say, stock investing, you'll have a cushion for when things don't go as planned. You could actually save money by setting this $1,000 aside, as you won't force yourself to depend on high-interest debt, like loans or credit cards.

5. Invest in an ETF

An exchange-traded fund (ETF) is a collection of stocks — usually from the same market sector or industry — that tracks a larger market.

For example, you could invest in an ETF that tracks gold mining companies. Instead of buying stock in one gold mining company, an ETF gives you small shares in numerous companies. This helps you diversify, as well as expose you to the greatest number of companies for your dollar.

6. Try GIC-laddering

If you don't want to invest your money in stocks or ETFs, but you're also sick of the meager returns on savings accounts, you could put your $1,000 in a GIC-ladder.

A guaranteed investment certificate (GIC) is a popular form of fixed income. You lock your money away for a specific period of time after which you get your initial deposit back plus whatever interest it earned. You can lock your money away for a few months to several years or more.

In general, the longer your GIC term, the higher your interest rate. The only problem with longer terms: they can come with withdrawal restrictions or penalties, such as forfeiting interest earned, if you try to cash out before the term is up.

Most people don't want to lock away $1,000 for five years or more, especially if you need it for emergencies, which is where ladders come in handy. With a "ladder" strategy, you take out multiple GICs, each with different terms. For instance, you could put equal amounts of savings into a 6-month, 1-year, 1.5-year, or 2-year GIC.

After 6 months, your 6-month GIC will reach maturity, and you can access that money. What's more, all of your GICs will be 6 months closer to maturity, meaning you technically have a 6-month, 1-year, and 1.5-year GIC. If you don't need money from your matured GIC at the moment, you can *reinvest* it in another 2-year GIC. In this way, every 6 months, you buy a new 2-year GIC, and your money won't stop growing.

Having multiple GICs helps you take advantage of the higher rates on long-term GICs, while also ensuring you don't lock in your savings longer than you can afford.

This can be a lucrative strategy. Just be careful that you don't get too carried away with it. You most likely won't earn more money from GIC ladders than stocks or funds. And, if interest rates are low, you might not earn that much at all.

Foolish bottom line: Don't waste your $1,000

While $1,000 may not seem like a lot right now, it can lay the foundation for a solid savings strategy. Set it aside in an emergency fund, or use it to invest in an RRSP, TFSA, or non-registered account.

Above all, keep contributing to this initial $1,000: the more money you put into your investments, the more money you can potentially earn, turning that $1,000 into a solid retirement fund.

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