2021 Financial Resolutions: 3 Easy Steps to Getting Your Finances on Track

Description

With 2020 now all wrapped up, Canadians can shift their focus to getting their finances back on track.

The COVID-19 pandemic has had various impacts on Canadians across the country. Many, unfortunately, have lost their job during this pandemic. For those fortunate enough to keep their job, they may have actually seen an increase in their savings rate.

The pandemic forced closures of stores across the country, leaving many Canadians with fewer opportunities to spend their paycheck.

Whether you're trying to build your finances back up from the rough year in 2020 or you're looking to take the next step in increasing the size of your retirement nest egg, these three steps will help guide you toward your financial goals.

Financial resolution #1: Opening the right accounts

Everyday banking products, such as chequing and savings accounts, serve an important purpose in consumers' lives.

The limitation of chequing and savings accounts is that they typically aren't the greatest account to use for mid- to long-term savings goals. These goals could include saving for a down payment on a housing property or a retirement nest egg.

Before even thinking of the types of investments you'd like to own, you'll need to make sure you have the right accounts that match your objectives.

The Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) are the two accounts you'll want to consider. Both accounts offer tax-advantages for Canadian residents that you should be taking full advantage of.

The beauty of the TFSA and RRSP is that Canadians aren't limited to using just one. Depending on your timeline, you may gravitate to using just one of the two accounts. But if you have multiple savings objectives, you'll likely want to leverage the benefits of both accounts.

Financial resolution #2: Investing in the stock market

The stock market can be an intimidating place for new investors. The surplus of options of what you can actually invest in is often a major reason why Canadians forgo investing in the market altogether.

The good news is that investing does not need to be complicated. Thanks to exchange-traded funds (ETFs), Canadians can spend as little as an hour a month on their finances and still earn a top return.

ETFs allow investors to be fully invested in the stock market without the need to ever pick individual stocks. ETFs group together stocks that fit your investing style and objective. There is a cost to owning this type of fund, though, but it is often very minimal.

ETF funds charge a management fee to investors to keep the fund balanced. Investors can easily find ETFs with fees below 0.10%, which is far below what many mutual funds charge today.

Canadian investors have all sorts of options when it comes to picking the right ETF for their portfolio. Whether you're looking for income, growth, or a specific geographic exposure, there's likely an ETF already created for you.

A total stock market index is a perfect place for new investors to begin. Funds such as the **Vanguard FTSE Canada All-Cap ETF**, allow Canadians to own a mix of small-, medium, and large-sized cap companies, spread across a wide range of different industries.

Financial resolution #3: Investing in individual stocks

Some investors have the desire to be much more involved in managing their portfolios. For them, investing in individual stocks is the logical next step.

Investors should keep in mind that there is absolutely nothing wrong with owning both individual stocks and ETFs in their portfolios. Total stock market funds can act as a solid base for a portfolio. It allows investors to take on more risk by investing in individual stocks.

While adding individual stocks to a portfolio can add more risk and volatility, it's balanced out with the potential to earn higher returns.

For investors who are a bit more risk-averse, **Fortis** (TSX:FTS) would be an excellent first stock to buy. The utility company provides an essential service to Canadians across the country.

Even as a relatively stable company, the volatility will likely be higher than that of a total stock market fund. On the plus side, Fortis has easily outperformed the returns of the Canadian stock market over the past decade.

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