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Cards and Canucks

In shaky economy, is it wiser to invest or pay debt?

by Carmen Chai | Apr 19, 2016

We've all seen firsthand the effects of Canada's tumultuous economy. Our dollar sunk to about US$0.70, we're dealing with a steep spike in fresh food prices at the grocery store and we've scrapped luxuries such as cross-border shopping and travel to the U.S. and Europe.

The latest casualty I've noticed are my investments in my Tax-Free Savings Account (TFSA) and my Registered Retirement Savings Plan (RRSP). The majority of my savings are tied up in these accounts and between December 2015 and April 2016, I watched their value dip. It started slow, and soon I realized they were nearly $1,000 lower than they were just months before. And I'm hearing that our markets are only going to keep slipping.

I've stopped contributing to my TFSA and RRSP for now, but I sought the advice of certified financial planner Mike Gomes to see if I should completely pull the money out of the accounts.

"It's scary, no one saves to see a lower number," Gomes said. "We're all saving for a higher goal. There's a mathematical answer and an emotional answer. I wouldn't change investment or savings strategies depending solely on the markets."

If you're like me, wondering whether to stay the course or withdraw your invested funds, Gomes gives a few things to consider.

What is the purpose of your fund?

If you're relying on the money in your TFSA for a down payment on a house or to pay for a wedding in the near future, the value of your investments is much more important to you than it would be to someone who's locking away the money for the long

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run.

"If you don't need the money, leave it there and continue contributing if you can," Gomes says. "If it's a short-term goal and you need the money, you might not have the ability to ride out the markets."

If you *are* planning to use the money sooner rather than later, it might be worthwhile to pull out the funds and put them in a more secure investment such as a guaranteed investment certificate (GIC). The interest will be more modest, but at least you'll stop the hemorrhaging.

Do you have hefty debt?

If your credit card balance, line of credit, mortgage or student loan is weighing you down, addressing your debt may need to take higher priority.

The timing is reasonable, Gomes says, especially if you're paying 19 per cent interest on your debt while losing dollars on your investments at the same time.

Withdrawing money from your RRSP will leave you with a tax hit, but if you have money in a TFSA to alleviate your debts, you could gain peace of mind. This is where the decision-making goes beyond crunching numbers.

"If having debt is keeping you up at night, then it makes sense to pay off the debt, and then you'll have an excess cash flow you can then decide to save," Gomes says.

Is there a happy compromise?

Gomes says basing your decision solely on small dips in the market isn't wise. Another way of looking at it is that you're buying stocks on sale when the markets are down.

If you're a nervous investor, move your money out of high-risk accounts that aren't helping your cause. Talk to your bank to see if there are options that better suit your comfort levels.

If you're still unsure, stick to the safest bets that'll bring you gains, even if they're small. A high-interest savings account won't get you remotely close what some investments would, but there's safety there.

"The right strategy is picking a solution that's right for you and having confidence in it," Gomes says.

My plan: leave my money where it is

After talking to Gomes, my plan is to ride out the storm. I don't need my savings within the next two or three years, and in that time, my investments should be back in the black.

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I still need to go over my investment profile, though. I know I balanced my portfolio so it's moderate, but a small portion of my savings were pooled into stocks that were much more of a gamble. If they're what is pulling my savings down, I'm going to stop the bleeding and move them to safer bets.

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