Stick to the Long-Term View with RRSP Planning

Some investors are having second thoughts about their registered retirement savings plan contributions because of the recent economic turmoil. But leading advisors say that now, more than ever, nervous investors need to remind themselves what an RRSP is all about: long-term planning and security for retirement.

"The volatility in financial markets and uncertainties are weighing on people's confidence as they look at their 2012 financial planning," says Norman Raschkowan, executive vice-president, investments for Mackenzie Financial Corporation in Toronto. "It's easy to understand why they might be hesitant to commit to RRSPs. But it's easier to restore confidence if you look out three to five years rather than three to five months. The volatility will smooth itself out the longer the time horizon."

Andrew Beer, manager, investment planning with Investors Group in Winnipeg agrees that it shouldn't matter what markets are doing right now because long-term performance inevitably delivers positive outcomes for those willing to wait.

There is comfort to be found in looking at history, he explains. "With the TSX [Toronto Stock Exchange], the longer out you go in the past, the greater the positive returns. Short-term we are seeing a positive return 76% of the time. Go out five years and it's 98% of the time. Over 10 years, it's 100%."

When the economy is bad, it may seem like there are more reasons not to make a contribution, concedes Bob Stammers, director of investor education, CFA Institute, New York office. "But the reality is most Canadians need an RRSP to amass enough retirement income, since most pension plans won't. Besides, nothing else provides the same tax deferral benefit."

When thinking about your RRSP, there are some best practices you should always keep in mind. One is establishing a financial plan with clear needs, objectives and tolerance for volatility, Raschkowan says. "Because markets are more volatile and there are more factors to take into consideration, it's a good idea to sit with a professional to assemble a good, customized plan to meet your needs. Mutual funds and exchange-traded funds, for example, are great vehicles for diversifying."

You also don't need to check out your portfolio every day. In fact, constant vigilance will only to serve undermine your confidence and potentially lead to some bad decisions, Raschkowan adds. "An RRSP strategy is better served if you don't look at your investment mix too frequently. Once or twice a year is usually enough."

An advisor can also play a key role in helping investors stick to their long-term plan, in spite of the bumps along the way, Stammers says. “An advisor brings the discipline to help you stay in the game when the going gets tough, and can help you determine when it’s the right time to get out.”

And even though the concern about where to invest your money is greater these days, Beer says, “Our perspective is to maintain a diversified portfolio. Year over year you don’t know what the best performing asset class will be. Above all else, always think long-term, not short-term.”

Article from Financial Post: http://business.financialpost.com/2012/02/21/stick-to-the-long-term-view-with-rrsp-planning/

Denise Deveau Feb 21, 2012 – 6:00 AM ET | Last Updated: Feb 17, 2012 2:46 PM ET

Accessed March 01, 2012