GUIDE 06

Investing in Canada

Your Starting Point

WealthPath by TJ
wealthpathbytj.com

GUIDE 06

Investing in Canada

Your Starting Point

A plain-language guide to growing your money as a Canadian. ETFs, index funds, registered accounts, and how to start investing with real confidence.

By TJ | WealthPath by TJ | wealthpathbytj.com

Why Investing Matters

Saving money is essential. But saving alone is rarely enough. Inflation quietly erodes the purchasing power of every dollar sitting in a standard savings account. If your money grows at 1% per year while inflation runs at 3%, you are effectively getting poorer while your bank balance looks the same.

Investing puts your money to work so it can grow faster than inflation over time. It is not gambling. It is not guesswork. When done thoughtfully, it is one of the most powerful tools available to everyday Canadians who want to build genuine, lasting wealth.

◆ THE SAVINGS ACCOUNT TRAP

A high-interest savings account paying 4% might feel great right now. But that rate is not permanent. Over the past decade, savings account rates averaged less than 1%. Meanwhile, a broad stock market index fund has historically returned 7 to 10% per year over long periods. The gap between those two numbers, compounded over 20 or 30 years, is the difference between a comfortable retirement and a stressful one.

This guide will walk you through what investing actually means in Canada, how to start, which accounts to use, and what to look for in a beginner-friendly investment strategy. No insider knowledge required. No large sum of money required to begin.

The Power of Compound Growth

Compound growth is the process of earning returns not just on the money you put in, but on all the returns that have accumulated before. It is growth on growth. Over time, this creates exponential results that no savings account can replicate.

Monthly Investment	Years Invested	At 7% Annual Return	Total You Contributed
$200	20 years	$104,000	$48,000
$200	30 years	$243,000	$72,000
$500	20 years	$261,000	$120,000
$500	30 years	$607,000	$180,000
$1,000	30 years	$1,214,000	$360,000

Approximate values based on a 7% average annual return. Actual returns vary. For illustrative purposes only.

TJ's Take: Time is the variable you cannot buy back

Look at the table above. The person who invested $200 per month for 30 years contributed $72,000 of their own money and ended up with $243,000. The extra $171,000 came entirely from compounding. That is the argument for starting now, even if the amount feels small. A $100 monthly investment started today is worth far more than a $500 investment started ten years from now.

Where to Hold Your Investments

Before deciding what to invest in, you need to decide where to hold those investments. In Canada, registered accounts offer significant tax advantages that dramatically improve long-term outcomes.

TFSA: Tax-Free Savings Account

Inside a TFSA, all investment growth (capital gains, dividends, interest) accumulates completely tax-free, and withdrawals are also tax-free at any age, for any reason. The annual contribution limit for 2024 is $7,000. Unused room carries forward from previous years, so many Canadians have $40,000 or more in total available room.

- Best for: most Canadians, especially those in lower to middle income brackets
- Withdrawals restore your contribution room the following January 1
- You can hold cash, GICs, ETFs, stocks, bonds, and mutual funds inside a TFSA
- Over-contributions attract a 1% per month penalty from the CRA

RRSP: Registered Retirement Savings Plan

RRSP contributions reduce your taxable income in the year you contribute. Growth inside is tax-deferred until withdrawal, when it is taxed as regular income. This is powerful if you contribute in high-income years and withdraw in lower-income retirement years.

- Best for: higher earners who expect to be in a lower tax bracket in retirement
- 2024 contribution limit: 18% of prior year earned income, maximum $31,560
- Withdrawals are taxed as income, so timing matters
- Can be used for the Home Buyers Plan (up to $35,000) or Lifelong Learning Plan

Non-Registered Account

Once your TFSA and RRSP are maxed, a non-registered (taxable) investment account is the next step. There are no contribution limits, but investment returns are subject to tax each year. Capital gains are taxed at 50% inclusion rate, which is still more favourable than ordinary income.

- Best for: investors who have maximized their registered accounts
- Dividends from Canadian corporations receive a dividend tax credit
- Capital losses can be used to offset capital gains in the same or prior three years

Quick Win: Start with your TFSA

If you are new to investing or unsure where to begin, open a self-directed TFSA at Wealthsimple or Questrade. Both are free to open, easy to use, and allow you to buy ETFs with no commission. Once the account is open, you have taken the most important step.

What to Invest In: The Basics

Understanding what you are actually buying matters. Here is a plain-language breakdown of the most common investment types available to Canadian investors.

Stocks

A stock represents partial ownership in a company. When the company grows and profits, your shares increase in value. When the company struggles, your shares can fall. Individual stocks carry significant risk because any single company can underperform or fail. Most financial educators recommend beginners avoid picking individual stocks.

Bonds

A bond is a loan you make to a government or corporation in exchange for regular interest payments. Bonds are generally lower risk than stocks but also lower return. They play a role in balancing a portfolio, especially as you get closer to retirement.

ETFs (Exchange Traded Funds)

An ETF is a basket of many investments (stocks, bonds, or both) bundled into a single product that trades on a stock exchange. Buying one ETF can give you exposure to hundreds or even thousands of companies. ETFs are the foundation of most beginner-friendly investing strategies in Canada for three reasons: they are cheap, diversified, and easy to understand.

Index Funds

An index fund tracks a specific market index, like the S&P; 500 (the 500 largest US companies) or the TSX Composite (the largest Canadian companies). Instead of trying to pick winners, you own a slice of everything. Research consistently shows that most actively managed funds fail to beat their index over long periods, yet charge significantly higher fees for trying.

◆ THE FEE DIFFERENCE IS ENORMOUS

An actively managed mutual fund might charge 2% per year in management fees (MER). A broad index ETF might charge 0.2%. On a $100,000 portfolio over 25 years at 7% growth, that 1.8% fee difference costs you approximately $180,000 in lost returns. Low fees compound in your favour just as powerfully as returns do.

GICs (Guaranteed Investment Certificates)

A GIC is a deposit you make at a bank or credit union for a fixed term (3 months to 5 years) at a guaranteed interest rate. They are low risk and capital-guaranteed, but returns are typically lower than equities over the long run. GICs make sense for money you will need within 1 to 3 years or as a stability buffer for conservative investors.

Building a Simple Investment Strategy

You do not need a complicated portfolio to build wealth. Many experienced investors use nothing more than one or two broadly diversified ETFs and consistently add to them over time. Here is what a straightforward strategy looks like in practice.

Step 1: Know your time horizon

Time horizon means how long you plan to leave the money invested before you need it. The longer the horizon, the more growth potential you can reasonably target and the more short-term volatility you can comfortably absorb.

- 5 or more years away: a higher proportion of stocks (equities) is appropriate
- 3 to 5 years: a balanced mix of stocks and bonds
- Under 3 years: safer options like GICs or high-interest savings make more sense

Step 2: Choose an all-in-one ETF

For most beginners, a single all-in-one asset allocation ETF is the simplest and most effective starting point. These funds hold a mix of global stocks and bonds automatically rebalanced to maintain their target split.

ETF	Stock / Bond Split	Best For	MER (approx)
XEQT	100% stocks	Long horizon (20+ yrs)	0.20%
XGRO	80% stocks / 20% bonds	Growth-focused (10+ yrs)	0.20%
VGRO	80% stocks / 20% bonds	Growth-focused (10+ yrs)	0.24%
XBAL	60% stocks / 40% bonds	Balanced (5-10 yrs)	0.20%
XCNS	40% stocks / 60% bonds	Conservative (3-5 yrs)	0.20%

These are examples, not personalized recommendations. ETFs trade on the TSX. Check each fund's current MER and holdings before investing.

Step 3: Invest consistently

Consistency beats timing. Set up a recurring transfer on payday and buy your chosen ETF each month or quarter. This approach is called dollar-cost averaging. Some months you buy when prices are high, some months when they are lower. Over time, the average evens out and you remove the impossible task of trying to predict the market.

TJ's Take: Stop waiting for the right time to invest

The most common reason people do not start investing is that they are waiting for the right moment. The market is too high. They want to save a little more first. They want to understand it better before committing. These are all reasonable feelings and none of them change the math. The right time is as soon as you have a stable emergency fund and a manageable debt situation. Even $50 or $100 per month invested consistently over decades builds real wealth.

Opening an Investment Account

Once you know what you want to invest in and where you want to hold it, you need to open an account. Here are the most popular options for beginner Canadian investors.

Platform	Best For	Fees	Notes
Wealthsimple Trade	Absolute beginners	$0 ETF trades	Simple app, fractional shares, easy TFSA/RRSP setup
Questrade	Beginners to intermediate	$0 ETF buys; $4.95-$9.95 sells	More investment options, slightly more complex
Wealthsimple Invest	Hands-off investors	0.5% management fee	Robo-advisor; builds and rebalances portfolio for you
Bank brokerage (RBC, TD etc.)	Those who prefer bank relationships	$9.95 per trade typically	Higher fees, more oversight, full-service branches

Fees and features change. Always verify directly with the platform before opening an account.

Quick Win: Open your account today, invest tomorrow

Opening an account takes about 15 minutes. You will need your SIN, government ID, and basic personal information. Once open, link your bank account. Then, on your next payday, buy one unit of your chosen ETF. That single action puts you ahead of the majority of Canadians who mean to invest but never start.

Common Investing Mistakes to Avoid

Most investing mistakes come from emotion, impatience, or misinformation. Here is what to watch out for.

Trying to time the market

Nobody consistently predicts market movements, including professional fund managers. Missing the 10 best days in a given decade can cut your total returns by more than half. Stay invested, even when headlines are scary.

Selling during market downturns

A portfolio that drops 20% has not lost money unless you sell. Market declines are a normal part of investing. The Canadians who build wealth are the ones who resist selling during panic and keep buying when prices are low.

Chasing last year's hot investment

Whatever investment produced the highest return last year is often the worst place to be next year. Cryptocurrency, meme stocks, and sector-specific bets all have a history of attracting buyers at the peak. Diversified index funds are boring on purpose.

Investing money you need within two years

Markets fluctuate. Money you need for a down payment, emergency fund, or planned expense in the near term belongs in a GIC or high-interest savings account, not the stock market.

Checking your portfolio every day

Daily check-ins lead to emotional decisions. Set a quarterly review instead. Confirm your contributions are happening, check that your allocation still matches your goals, and leave it alone.

Paying high mutual fund fees without realizing it

Many Canadians hold bank mutual funds with MERs of 1.5 to 2.5% and have no idea what they are paying. Over 25 years, this difference in fees versus a low-cost ETF can cost six figures in lost growth.

Investing and Taxes in Canada

Inside a TFSA or RRSP, most tax considerations disappear entirely. But in a non-registered account, understanding how returns are taxed helps you make smarter decisions.

- Capital gains: when you sell an investment for more than you paid, 50% of the gain is included in taxable income. A $10,000 gain means $5,000 is added to your income for the year.
- Canadian dividends: these receive a dividend tax credit that reduces the effective tax rate, making them more efficient than regular income in non-registered accounts.
- Foreign dividends: taxed as regular income and may also be subject to foreign withholding taxes. US dividends held in an RRSP are generally exempt from US withholding tax under the Canada-US tax treaty.
- Interest income: fully taxed as ordinary income, the same as employment income. This makes GICs and bond interest the least tax-efficient return type in a non-registered account.

For most beginners, holding investments inside a TFSA removes nearly all tax complexity and is the recommended starting point.

◆ ASSET LOCATION MATTERS

Once you are investing in both registered and non-registered accounts, where you hold specific investments matters. Interest-generating assets (GICs, bonds) belong in your TFSA or RRSP where the tax drag disappears. Canadian dividend stocks and growth-oriented equities can be held in non-registered accounts with comparatively less tax impact. This strategy is called asset location and becomes increasingly valuable as your portfolio grows.

A Realistic Starting Plan

If you are starting from zero and do not know what to do first, here is a step-by-step plan to follow over the next 30 days.

Week 1: Build your foundation

- Confirm you have 3 to 6 months of expenses in an accessible savings account before you invest anything
- Check your TFSA contribution room on CRA My Account (canada.ca/my-cra-account)
- Pay off any high-interest debt above 7 to 8% before directing money toward investments

Week 2: Open your account

- Choose a platform (Wealthsimple Trade for simplicity, Questrade for more control)
- Open a self-directed TFSA
- Link your bank account for transfers

Week 3: Choose your investment

- Pick one all-in-one ETF that matches your time horizon (XEQT, XGRO, XBAL, or XCNS)
- Read the fund's fact sheet so you understand what it holds
- Decide on an amount you can invest each month without straining your budget

Week 4: Automate and review

- Set up a recurring monthly transfer to your investment account
- Buy your chosen ETF on your next payday
- Schedule a quarterly calendar reminder to review your progress
- Avoid daily check-ins after that

TJ's Take: Keep it simple and keep going

The most important investing habit is consistency. A single ETF, purchased monthly, inside a TFSA, with fees under 0.25%, is a genuinely excellent strategy. You do not need to upgrade it as you learn more. Most 'upgrades' people make actually reduce returns through additional fees, more complexity, and more opportunities for emotional decision-making. Simple works. The investors who build the most wealth are usually the ones who do the least tinkering.

wealthpathbytj.com