3 Mistakes That Will Sabotage Your Retirement

Description

In today's age of anemic company pension plans, low interest rates, and less than generous CPP benefits, it's easy to see why you'd be nervous about retirement. Advances in medical technology could mean a retirement that lasts 30 or even 40 years. That leaves a lot of time to spend with the grandkids.

There's just one problem. Just how can someone afford a retirement that lasts almost as long as their working career?

It's difficult, but there's no reason why you have to outlive your nest egg. Expenses tend to go down during your golden years, since kids are generally old enough to be self sufficient, the house is paid off, and you're not driving across the city to go to work everyday. With a combination of smart investing, frugal living, and avoiding mistakes, Canadians can look forward to a happy and long retirement.

Here are three mistakes that will torpedo even the best laid retirement plans. Avoid them at all costs.

1. Chasing yield

Unfortunately, we don't live in a world where retirees can get yields of 4-7% from fixed income products. So what do they do? They accept 1-2% from GICs and look to make up the difference by investing in stocks that yield 7%, 8%, even 10%.

Sometimes, such a plan will work out. A stock that is temporarily downtrodden will recover, and suddenly an 8% risky yield will turn into a 5% steady yield. But retirement is not a time for taking risks. For the most part, anything with a yield above 6% should be viewed skeptically, especially for retirees. Not only can a dividend cut hurt your income, but it's bound to send the stock reeling as well.

Instead, look at a company like **RioCan Real Estate Investment Trust** (TSX: REI.UN), Canada's largest owner of retail space. It's diversified in both geography and its tenant base, renting to the cream of the industry. RioCan has been a consistent dividend payer, not missing a monthly dividend since going public in the late 1990s. Plus, shares yield a generous 5.3%.

2. Selling during market weakness

During the middle of October, it was looking pretty bleak for stocks. Investors were worried about slowdowns in Europe, China, and Japan. Oil continued sinking with no end in sight. Gold was also weak. The TSX Composite hit its lowest level in months, and investors braced for the possibility of a big correction.

Now? Investors are still worried about Europe, China, and Japan. Gold and oil continue to be weak. And yet, the TSX Composite has recovered some 5%.

When holding for the long-term, avoid panicking and selling when the market dives. Remember, the market does tend to go back up again, and cashing out while things are down is a really easy way to turn a paper loss into an actual loss.

3. Swinging for the fences

There's a time when investing in risky names makes sense. Retirement age is not that time.

There's nothing that beats the feeling of picking a stock that shoots up in value. But when it comes to your golden years, preservation of capital should be the priority, not taking on additional risks.

Besides, there are plenty of stocks a retiree can own that have a bit of a growth component to them. Take **Saputo Inc.** (TSX: SAP) as an example. Canada's largest dairy producer is currently in the beginning stages of consolidating the industry, which is incredibly fragmented worldwide. It currently has operations in the U.S., Argentina, and Australia; New Zealand and Brazil may be next.

Management is being smart about it. The company takes small bites, not maxing out its credit in the process. Since there are so many opportunities, it can be patient and avoid overpaying. Investors are also getting a 1.7% yield, which seems small until you factor in dividend growth. The company has grown its dividend by nearly 100% since 2009, and still only pays out 38% of net earnings. Look for dividends to grow even faster in the future.

CATEGORY

1. Investing

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1. TSX:REI.UN (RioCan Real Estate Investment Trust)
2. TSX:SAP (Saputo Inc.)

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