# Retirees: 2 Essential Things About Investing You Should Keep in Mind

## Description

Ideally, you will have started building a diversified portfolio of quality assets that generate a regular income for you many years before you retire. I'm emphasizing income instead of capital gains because income can be generated more reliably than capital gains.



If you do have such a portfolio, you only have to decide if you need to rebalance the portfolio from time to time with capital preservation in mind.

### Capital preservation

For a stock portfolio, capital preservation can be viewed from different perspectives. Are you buying stocks at a discount to their intrinsic values? Are you buying quality assets? Would you consider selling some or all of the shares of a stock because it's overvalued and use the proceeds to buy another stock (thereby rebalancing with capital preservation in mind)?

In the last decade, **Royal Bank of Canada's** (TSX:RY)(NYSE:RY) normal multiple has been 12.5. At about $75, its multiple is 11.3, so it has a margin of safety of about 10%. Royal Bank is Canada's leading bank, but it generates about 20% of its revenue from the U.S. and 18% internationally. Further, it has an S&P credit rating of AA-. So, it qualifies as a quality company.

### Regular income

It's difficult to consistently trade stocks for a profit. Retirees probably prefer to earn regular passive income from their stocks instead. The first stocks that retirees should consider are dividend payers that generate rich cash flows. These stocks include utilities, real estate investment trusts (REITs), banks, and telecoms.

Royal Bank has increased its dividend 10% per year on average from 2005 to 2015. Its quarterly dividend is 5.3% higher than it was a year ago. In the medium term, Royal Bank is expected to grow its earnings in the range of 4-7% per year, so retirees can expect its dividend to grow more or less in that range, assuming its payout ratio remains at 50%.

Utilities such as **Brookfield Renewable Energy Partners LP** (TSX:BEP.UN)(NYSE:BEP) offers an above-average yield of 6.5%. However, there's little margin of safety for the shares today. Additionally, its distribution is U.S. denominated, so its yield gets a boost from the strong U.S. dollar.

Some retirees might wish to diversify with an ETF. **iShares S&P TSX Capped REIT Index Fund** ( TSX:XRE) aims to provide capital growth by replicating the performance of the S&P/TSX Capped REIT Index, which comprises of 17 equity REITs. The ETF offers an above-average yield of 5.3% but would be a better deal if investors can buy it at the $14.50-14.80 level.

**Conclusion**

Managing a stock portfolio for retirement is a balancing act between capital preservation and current income. You might rebalance the portfolio from time to time, and you should know where your proceeds will go before you rebalance.

However, if you have built a diversified portfolio of quality dividend stocks over many years, sometimes it's best to just leave it be, especially if your cost basis is low, because every move you make costs transaction fees, and you won't make the right choices every time.



**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**POST TAG**

1. Editor's Choice

**TICKERS GLOBAL**

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
4. TSX:RY (Royal Bank of Canada)
5. TSX:XRE (iShares S&P/TSX Capped REIT Index ETF)

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