Can Your Retirement Survive the Next Crash?

Description

There are very few investors thinking of the next crash right now. Everybody is bullish.

It's easy to see why. The TSX Composite Index recently hit a brand new all-time high. The Dow Jones Industrial Average finally crossed the 20,000-point mark. And both the S&P 500 and NASDAQ Composite indexes are at all-time highs.

Investors are also excited about President Trump's anticipated tax reforms, which could include things like lowering corporate taxes and allowing U.S. corporations easily bring back funds stashed overseas at a more reasonable rate. This move that could easily jumpstart corporate investment, and with it, the overall economy.

Still, the time to plan for the next crash isn't when stocks are cratering. The time is now when the world looks rosy.

I'm not suggesting anybody sell everything and go to cash. Instead, just make a few little tweaks today to ensure that when the next crash comes — and it will; that much is certain — your portfolio is well prepared.

Risk down

There are a number of easy ways to reduce risk in your portfolio.

The one that will have the biggest impact is to switch out some risky stocks for safer choices. Those stocks are likely up significantly over the last year or so, making it a great time to cash out.

One of my favourite boring stocks is the dividend-growth stud **Canadian Utilities Limited** (TSX:CU), which has raised its payout each year since 1973. Canadian Utilities offers a nice current yield of 3.9%. A recent move by management has focused the company on steadier regulated assets, and it has an ambitious growth plan that grew adjusted earnings approximately 30% over the last year.

Perhaps most importantly, Canadian Utilities is the kind of stock that protects principal when the market crashes. It has a beta of just 0.25, making it a quarter as volatile as the entire market. In 2008-o9, as the rest of the world was blowing up, Canadian Utilities shares fell barely 25% from peak to trough.

Add fixed income

Many investors have 100% of their assets in equities. Such a move is all fine and good when stocks are doing well, but it can be extremely dangerous to your portfolio's health during a downturn.

Now is the perfect time to add a few bonds to your portfolio. When stocks crater, bonds tend to stay about the same or even go up in value as panicked investors stampede out of equities. Plus, bond yields are better than they've been for a number of months.

The **iShares DEX Bond Index Fund** (TSX:XBB) is Canada's largest fixed-income ETF. It offers a yield of nearly 3% as well as a way to get access to more than 1,000 different government and corporate bonds.

Or, if investors want a little more yield, they can buy a preferred share ETF. The **Claymore S&P/TSX Preferred Share ETF** (TSX:CPD) offers a 4.6% yield, but keep in mind that during a crash preferred shares may not hold up as well as bonds.

Pay down debt

I'm constantly surprised how many investors still have a mortgage, car loan, or even credit card debt as they near retirement.

The solution is simple. Instead of allocating new capital to investments, take the easy route and pay down debt. Remember, retirement isn't all about assets under management. Cash flow matters too.

Eliminating a fat mortgage right before retirement has psychological benefits as well. There's nothing that beats the feeling of being debt free, even if a mortgage costs you 2% and you can get 4% from a basket of dividends.

The bottom line

A few astute portfolio moves made today, when the market is doing well, can really help when things start to get rocky again. Don't let recent history fool you. The time to take a little risk off the table is today — not when stocks have already fell 10% or 20%.

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2. Investing

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1. TSX:CPD (iShares S&P/TSX Canadian Preferred Share Index ETF)
2. TSX:CU (Canadian Utilities Limited)
3. TSX:XBB (iShares Core Canadian Universe Bond Index ETF)

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nelsonpsmith