Retirees: What Should You Do With Your High-Yield Stocks as Interest Rates Rise?

Description

If you're a retiree, then your portfolio is probably full of high-yielding securities like REITs, utility stocks, telecom stocks, or even high-yield bond funds. Many of these asset classes have been doing really well over the last few years, and a big reason why is because interest rates have been kept ridiculously low for an extended period of time.

You're probably aware that Canada and the U.S. are making a gradual move towards a higher interest rate environment. This is going to impact several asset classes, so it's important for retirees to reassess their long-term goals and rebalance their portfolios in order to meet such goals.

What do rising interest rates mean for a retiree's portfolio? Should you be worried? In the near term, rate hikes will not do much to affect your holdings. It's business as usual for most companies on the TSX, and if the Bank of Canada takes a cautious approach to increasing interest rates, then there's really nothing to worry about as long as the economy keeps humming along.

Over the long term, REITs, utilities, and telecoms may experience slower growth going forward as interest rates continue to rise. I'm going to take a wild guess and say that there could be as many as two to three rate hikes per year, assuming that the Canadian economy strengthens. I believe it will thanks to the U.S. economy, which is very likely to thrive over the next few years under Trump and his pro-business tone.

Should you sell your high-yield securities before rates take off?

Of course not. REITs, utility stocks, telecom stocks have had their day, but they still offer stability and large dividends, both of which are crucial for retirees. Although higher interest rates are a negative for these industries, there will be individual businesses that will thrive regardless of the direction interest rates move.

If you decide to sell now, then you'd already be late to the race, as shares within these industries have pretty much already accounted for rising rates. Have a look at market darling and telecom company **Telus Corporation**

(TSX:T)(NYSE:TU), for example. It has been a high flyer in the years following the Great Recession, but the stock price appreciation has slowed, even before rates were raised. Many REITs have also experienced slowed appreciation of late. As of right now, I believe there is value to be had in the REIT, utility, and telecom sectors because of the recent slowdown.

Dividends will be kept intact and will continue to grow over the years, but don't expect major capital gains, if that's what you've gotten used to in the low interest rate environment. After all, stability, safety, and a fat dividend are the major attributes that retirees should be going after, and these sectors all offer these, even with much higher interest rates.

So, as a retiree, what should you do as interest rates surge?

If you're comfortable with potentially slower capital gains over the next few years, then you don't need to do anything. You may want to search for value in the REIT space, as there are many great bargains out there, and if you get a good enough cost basis, the headwind of rising interest rates may be partially or perhaps even fully offset.

If you're still hungry for growth in addition to stability and income, then you may want to consider adding shares of a renewable energy utility such as **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) to your portfolio on any signs of weakness.

Bottom line

Sure, rising interest rates aren't good news for many industries, but you don't need to make major changes to your portfolio. Instead, treat the rising interest rate environment as an opportunity to explore and find value in other high-yield stocks. Stability and yield are still key for retirees, and, fortunately, these attributes aren't going anywhere just because interest rates are moving up.

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