Retirees: Avoid This Massive Mistake in Your TFSA Retirement Fund

Description

While bonds make sense for older investors to own to safeguard against a potential market meltdown, the fact remains that a majority of today's investors would be better off in more bountiful, risky securities like equities or REITs. Such risky assets can offer 9-10% returns, as opposed to the incredibly weak 2-3% in bond returns that'll only marginally beat the rate of inflation.

For older investors like retirees (or near retirees), bonds are often seen as "safe" or free of risk, when in reality they may actually be riskier when considering the high opportunity costs involved.

In today's environment, I believe longer-term bonds are a stupid investment to make, even for retirees. They won't provide any sort of meaningful growth, and for retirees who fear running out of money, bonds are a sure-fire way to surrender potentially years' worth of growth that would have put such fears to rest.

Today's investors can realistically expect to live to 85, 90, or even 100. So, from an investment perspective, 60 is the new 50, and the percentage of funds invested in equities or REITs, I believe, should be higher relative to prior generations to account for the increasing average life expectancy.

With that in mind, retirees should continue to grow their wealth with the expectation that one could live many decades after hanging up the skates. By overweighting bonds in early retirement, you're actually taking a tonne of risk when you consider the massive opportunity costs. If your wealth isn't continuing to grow in your retirement, you could find yourself running out of money many years before you pass away. And if you don't have a fat pension to fall back on, your retirement could seriously get derailed at the worst possible moment.

Not to scare you or anything, but most retirees share this fear.

The solution isn't to retire later in life though; it's to retain a larger weighting in higher return asset classes (like equities, REITs, income funds) in retirement instead of going all-in on bonds, which will cause your nest egg to shrink by the year.

On the one hand, we're fearful over the wealth that could be lost in a market crash. But we're also fearful over the possibility of losing money if we fail to grow our nest egg in retirement. There's a compromise to be made, and although none of us know when we're going to pass away, we can make decisions that'll protect us in either scenario, whether we only live to 72 or if we pass the 100 mark. It's up to you to determine the level of risk you'll be comfortable taking on and whether your nest egg will last as long as you could.

If you're a recent retiree who's buying into a rule of thumb like having your percentage equity exposure as 100 minus your age, you should probably make some adjustments and put some of your bond capital into defensive dividend stocks that can provide the perfect blend of growth and safety.

My favourite bond proxy (or alternative) is **Fortis** (TSX:FTS)(NYSE:FTS), a well-run, highly regulated utility that can help retirees sleep comfortably. If you're one not to sell all your stocks when volatility comes about, Fortis is a magnificent bet that'll allow you to collect a 3.63% dividend yield every single year, which alone beats most "safe" short bonds.

Moreover, given the company's highly predictable growth runway, the company will be expected to hike its dividend by at least 5% every single year. Although there will be bigger bumps in the road relative to short-term bonds (20-30% corrections are not out of the ordinary when times get tough), the rewards relative to bonds are incomparable.

Not only will you stand to earn significant capital gains through your retirement, but Fortis's dividend is like a large coupon that will increase every single year for the rest of your life.

You're getting a guaranteed 5% raise every single year, and if you end up living to 100, the accumulated dividends alone could make you very rich. As for bonds, your nest egg would probably have shrunk significantly, especially if you ran into unexpected costs in the middle of your retirement.

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