Early Retirees: Recession Proof Your Retirement with This 1 Defensive Stock Strategy

Description

Nothing strikes fear in the hearts of retirees more than the thought of running out of money in retirement.

While this fear is common among all retirees, it's especially scary for those planning for early retirement, as they have a longer time horizon for their assets to provide for their needs. In addition, early retirees may not have access to pensions or other programs (such as CPP or OAS) for many years.

While reducing exposure to equities may seem like a safe course of action, early retirees need to ensure that their assets continue to grow by investing in stocks, which have historically provided the highest long-term rate of return above any other asset class.

Types of risks to retirement

You've worked hard to save and invest for your golden years, yet there are several risks that could impact your portfolio and put at risk everything you've worked for. These include:

- inflation risk – the risk that the value of your portfolio and the cash flow it generates won't be worth as much in the future as it is today because of changes in purchasing power due to inflation
- longevity risk – the risk of running out of assets before running out of time
- tax and regulatory risk – the risk that future regulations will materially affect your assets or the way in which withdrawals from these assets are taxed

Sequence of returns risk

One of the greatest threats to retirement assets is called sequence of returns risk, when a new retiree experiences a financial downturn in the early years of retirement, causing assets to be depleted faster than planned. The retiree may need to withdraw money from a diminishing portfolio, leaving less money to benefit from the eventual market recovery.

In dire circumstances, the retiree's wealth may be drawn down so significantly that a presumed subsequent market recovery will not be enough to return the portfolio to its previously healthy state.

While average market returns during retirement would be sufficient to maintain or grow the portfolio, negative returns near the beginning of retirement may create an insurmountable hurdle that cannot be overcome even if the market produces higher returns later in retirement.

Given that no one can accurately predict when the next bear market will occur, the best strategy is to protect your investment portfolio, just in case you're unlucky enough to retire during a down year.

Invest in stocks that guard against recession

Although people will cut back on discretionary spending during a recession, they still need consumer staples, like food and medicine. The stocks of these companies tend to decline less than the broader market during turbulent times.

Metro Inc. (TSX:MRU) is a great choice to help guard your portfolio from significant losses during a market downturn. The company maintains over 600 grocery stores, offering both high-end and value brands under the banners of Metro,

Metro Plus, Super C, and Food Basics. Metro also operates over 650 drugstores, primarily under the Jean Coutu, Brunet, Metro Pharmacy, and Drug Basics banners.

Metro is taking measures beyond its traditional brick-and-mortar stores to compete with the likes of **Amazon**. As the convenience of online grocery shopping gains popularity and the competition from online retailers heats up, Metro is expanding its popular online order system, a click-and-collect and home delivery grocery service.

Metro also competes in the growing market for easy prep, fresh food meal kits. As the company acquired a majority stake in Montreal-based meal kit company MissFresh, Metro has been offering the ready-to-assemble meal kits in its stores.

In the past year, Metro stock has risen 48%, from a low of $39.04. The stock is trading at $57.81, as of this writing. The company has also accumulated one of Canada's best dividend growth streaks, increasing its payout for 25 consecutive years. The current yield is 1.38%.

The bottom line

There are actions a retiree can take to lessen the impact of any risk to their nest egg, including adjusting their withdrawal rates during years of market volatility or negative returns, spending more conservatively, or returning to the work force.

However, none of these options are as appealing as protecting your portfolio with some defensive stocks. For those looking to hedge their assets against downturns, stocks like Metro are an excellent option.

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