Retirees: 3 Simple Ways to Protect Your CPP Pension From the Next Market Crash

Description

In retirement, it's not just about earning enough income from the Canada Pension Plan (CPP), Old Age Security (OAS), and your investment portfolio.

More importantly, you've got to make sure to protect your life savings from the next market crash that could wipe out half the value of your stock portfolio.

To avoid such a scary scenario that can cause the heart to skip a beat, here are three simple ways you can protect your retirement pension.

Low-risk dividend stocks

Stocks are considered risky assets. However, each stock lands on a spectrum from low risk to high risk.

I'd consider **Fortis** (TSX:FTS)(NYSE:FTS), **Enbridge** (TSX:ENB)(NYSE:ENB), and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) as low-risk dividend stocks.

First, their businesses are low risk. They have leading positions in the industries and markets they serve. When a recession occurs, their profitability will only be temporarily affected. In other words, their capabilities to make long-term profits will remain intact.

Second, these dividend-growth stocks have long histories of paying safe dividends. Their payout ratios remain reasonable for the industries they're in. So, their dividend yields are safe for retirement portfolios.

Third, Fortis, Enbridge, and TD Bank offer stable growth of 5-7% per year in their profitability over the medium to long term. Their growth rates are faster than inflation and drive future dividend increases and price appreciation.

Fourth, the quality companies offer passive income — decent yields of 3.6-6.4% — that far exceed the amounts offered by Guaranteed Investment Certificates (GICs).

Fifth, they tend to have below-market volatility, allowing shareholders peace of mind. In the last market crash, Fortis stock fell 24% from peak to trough. Enbridge stock fell 18%. TD stock fell 46%. The market fell about 50%. To be fair to TD, the last crash was triggered by a financial crisis.

Sixth, their valuations are reasonable, making them less prone to excessive sell-offs in a bear market.

Bonds

In general, bonds are less risky than stocks. They will fall less than stocks in a market crash, but proportionately, in a market rally, they'll also appreciate less.

Low-risk investors would have a meaningful part (up to 75%) of their investment portfolios in bonds, depending on how conservative they are.

iShares Canadian Corporate Bond Index ETF is a great option to gain easy exposure to Canadian investment-grade corporate bonds with maturities of at least one year. Also, it has a low management expense ratio (MER) of 0.44%.

In the last market crash, this bond fund only fell 11%. It provides better upside and a higher yield than GICs. At writing, the fund yields 2.95%.

Cash

It's best for retirees to have three years of living expenses in cash or cash equivalents like GICs, because historically, market crashes tend to recover within three years.

You never want to be forced to sell your investments during a crash. Doing so will destroy a big portion of your life savings!

Investor takeaway

To summarize, you can protect your life savings today by shifting to low-risk dividend stocks, which you plan to hold through thick and thin for passive income, and bonds that are lower risk than stocks. Additionally, hold enough cash and cash equivalents that'll support you through a market downturn.

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