Retirees: How to Protect Your RRSP From a Stock Market Crash!

Description

This week, markets have been crashing worldwide on fears that the ongoing COVID-19 spread will massively impact the global economy. Already, we're seeing supply chains severely disrupted, as Chinese factories shut down and buyers like **Apple** tell investors to brace for weaker-than-anticipated earnings. For retirees who are banking on their RRSP to carry them through their golden years, it's a scary time. While Canadian markets aren't down as much as U.S. markets, we're beginning to feel the heat at home, and virtually all equity markets are down worldwide.

Recently, Warren Buffett gave a highly anticipated interview with CNBC, where he counselled investors to see the current market crash as a buying opportunity. It's true that stocks are cheaper now than they were a week ago. However, for retirees who need their investments to pay off *today*, that advice may not be what they need to hear. Fortunately, there are ways to prepare your RRSP for a prolonged market crash–*without* having to wait for the market to recover. Here are three solid ones to consider.

Buy bonds

Bonds are the go-to choice for many investors when markets start to get turbulent. Bonds have priority claim on payments above stocks, so they can keep paying interest even when earnings are tanking. This makes them safer investments than stocks during tough economic times. Generally, government bonds only pay enough to keep you ahead of inflation, but you can get higher yields with corporate bond funds like **BMO Mid-Term US Corporate Bond Index ETF**, which yields 2.93%.

Invest in utilities

Bonds are probably the safest assets to hold in a market downturn. However, they don't offer a whole lot of upside. If you buy a fund like the BMO bond fund just mentioned, you're likely to see very slow capital gains and more or less flat distributions.

This is not so with a utility stock like **Fortis** (TSX:FTS)(NYSE:FTS). Utility stocks are among the safest stocks in market downturns, because they provide an indispensable service that most people won't cut out of their budgets, even in the worst of times. In 2008 and 2009 — the peak years of the global recession — Fortis increased its earnings and upped its dividend two years in a row. It's this kind of recession-resistant earnings power that has enabled FTS to increase its dividend every single year for 46 straight years.

Over the next five years, Fortis will be investing $18.3 billion in infrastructure upgrades. These expenditures will be dedicated to replacing aging infrastructure and connecting remote northern communities to the electrical grid. These projects should increase Fortis's revenue over the long term, which could lead to more earnings growth and dividend increases, even if the market keeps tanking.

Foolish takeaway

Normally, market downturns are opportunities for investors to "buy the dip" and build wealth for the long term. For retirees, the situation is a little different. When you're retired, you need your investments to produce income *today*, not at some hypothetical point in the future. By investing in bonds and utilities, you can build a safe portfolio of income-producing investments that let you rest easy during market downturns.

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