



Baby Boomers: How to Retire Comfortably Even After Your Portfolio Gets Decimated

Description

One thing that constantly surprises me is how many investors in their 50s and 60s still have aggressive portfolios.

The logic is usually two-fold. Firstly, these folks know that an all equity portfolio tends to outperform a portfolio with a healthy bond component over the long term, so they position themselves accordingly. There's nothing wrong with this logic, assuming one properly understands the risks involved.

The other reason this happens is a real head-scratcher. I've met many older investors who are taking all sorts of risks in their portfolio because they haven't reached their savings goals, and they think the only solution is to take more risk to "catch up."

Here's a typical example. One person I know has around \$250,000 in retirement savings in his mid-50s. He figures he can save an additional \$25,000 per year for the next decade, and then he'd like to retire at age 65. Although he only needs to earn a 10% return to [retire a millionaire](#) — which is his goal — this person has decided that the only way he can achieve his goals is to load up on risky high-growth stocks.

This might work out for him, and I don't want to bash growth investing. Some of the companies he's investing in certainly have a bright future. But that part of the market is also incredibly volatile, and the current downturn is hitting this portfolio especially hard.

I propose a different solution, one that will actually help protect your money in turbulent markets. Let's take a closer look.

The best retirement strategy

I've analyzed them all, and I'm convinced one retirement investment strategy trumps all the others.

The best way to turn your savings into a dependable stream of income during your golden years isn't to

aggressively invest in growth stocks. You don't want to do the opposite and load up on dirt-cheap value stocks, either. The best route is to load up on steady stocks with a history of slow dividend increases over time.

Yes, that's right. My [top retirement strategy](#) is to load up on dividend-growth stocks. Preferably you'll want to do so during times like these, when they're on sale.

To show you how powerful this investing philosophy can be, let's take a closer look at one particular dividend grower, a stock that I expect to play a role in my retirement despite it being decades away.

Great-West Lifeco ([TSX:GWO](#)) is one of Canada's largest and oldest life insurance companies, founded in Winnipeg in 1891. It then expanded into Eastern Canada, the United States, and Europe. Today, the company has some 31 million customers in its three main operating regions with assets of \$1.6 trillion under administration.

2019 was a year of transition for the company; it sold off some assets and used the proceeds to do a massive share buyback. So, even though revenue from premiums fell, the reduced share count ensured earnings stayed around the same. In fact, if we adjust out one-time costs from the transaction, Great-West Lifeco had a nice year.

Analysts continue to be bullish for 2020, telling the street to expect adjusted earnings of \$3.16 per share. That puts the stock at right around 10 times forward earnings, which is a great entry point.

After pausing dividend growth during the Great Recession, the company has resumed rewarding shareholders pretty aggressively. It has hiked the payout each of the last six years, including a 6% raise already in 2020. And with a dividend-payout ratio of around 50% of earnings, investors don't have to worry about the 5.6% yield. In fact, I'd bet the company will continue to consistently raise its dividend in the decades to come.

The bottom line

A dividend-growth strategy is as simple as it is powerful. If you stuff your cash in steady blue-chip stocks with a history of raising their dividends, you'll end up with a nice portfolio spinning out ample income come retirement. Since this strategy focuses on dividends, rather than the value of shares, it'll ensure your retirement is in great shape — even during one of the biggest market sell-offs in recent memory.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:GWO (Great-West Lifeco Inc.)

PARTNER-FEEDS

1. Business Insider

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