Should Retirees Even Invest in the Stock Market?

Description

As North American stocks continue to slide, many retirees who thought they could handle a high equity weighting in their portfolios are beginning to have second thoughts.

It's easy to see why doubt is creeping in. Imagine scrimping and saving for your entire life, only to see all your hard work evaporate because of issues most folks won't remember a few years from now. It must be maddening.

If you're one of these investors, you're probably second-guessing your entire retirement strategy right about now. Can you really handle another 10% down move if you're freaking out today?

In fact, maybe it's time to consider something drastic. Perhaps you shouldn't be in the stock market in the first place.

A no-stock portfolio?

There's one big advantage to avoiding the stock market altogether. You'll never have to experience another market crash ever again.

This one advantage is offset by a number of disadvantages, however. The biggest one is how can a retiree earn a decent return without some of their portfolio in the stock market? Interest rates have never been this low.

A 10-year Canadian government bond doesn't even pay 1% annually anymore. GICs are marginally better, but those rates have come down as interest rates have been cut.

And remember, all of these products pay interest, which is taxed at the full marginal rate. Dividends get much better tax treatment.

Unless you're swimming in cash or have very modest income needs, there's pretty much no way that you can earn enough at a 1-2% rate of return to fund your retirement. Sure, a $10 million nest egg would throw off $100,000 per year, but that's an unobtainable goal for almost every Canadian.

Perhaps you could make it work if you and your spouse both were eligible for generous Canada Pension Plan and Old Age Supplement pensions, but it still wouldn't be an ideal solution.

A reasonable compromise

The solution to our problem is relatively simple. A retiree worried about their nest egg should still be in the market. But rather than a portfolio heavy with equities, these folks should buy the most conservative stocks they can find and add in a healthy bond component as well.

We're talking a minimum of 50% bonds or other fixed income instruments — or perhaps even more.

One ultra-conservative stock I'd recommend for a retiree looking to preserve capital is **Rogers Sugar** (TSX:RSI), one half of Canada's dominant sugar duopoly.

The company is protected from competition by the nature of the market, high fixed costs for entry, and its brand is well-known to Canadian consumers. And in a move meant to protect Canadian farmers, there's a tariff on most forms of imported sugar.

As this is the start of this big market sell-off a couple of weeks ago, Rogers shares have performed rather well. In fact, shares are even up a few percent over the last month. The stock was also a source of strength during the last few crashes, too.

It's also a fantastic choice for providing income. Rogers shares currently yield a robust 7%, a payout that has been maintained for a decade now.

While the recent poor results from the company's newly acquired maple syrup division temporarily meant Rogers was paying out more than it earned, the company's outlook has improved.

Analysts project Rogers will earn around $0.40 per share in 2020, enough for it to afford its $0.36 per share annual dividend.

The bottom line

It might be tempting to avoid stocks altogether during market sell-offs, but I prefer another method. Retirees can protect their cash and get generous dividends by investing in conservative stocks like Rogers Sugar.

Add in a healthy bond component and we have a recipe for a prosperous retirement without too much volatility.

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1. TSX:RSI (Rogers Sugar Inc.)

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