Retirees: How to Protect Your Portfolio in a Market Crash

Description

Market corrections are frustrating and scary for many investors, but especially for retirees or those nearing retirement. By now, investors who fall into either category should have adjusted their portfolios to ease down on risk. That often means reducing equities and moving into more stable alternatives. Unfortunately, in this low-rate environment, even retirees have been forced to take on more risk in order to achieve yields above inflation.

Canadian and United States markets enjoyed a rebound on March 10, but futures were down again at the time of this writing. The coronavirus outbreak still poses a major risk to global growth that is almost impossible to adequately prepare for. Today, I want to discuss ways in which retirees and those nearing retirement can protect themselves in these turbulent times.

Re-evaluate your asset allocation

As I've stated already in this article, retirees should gear themselves toward more conservative investments and diminish their exposure to risk. For many, this means moving into income vehicles like government or corporate bonds. Bond yields have been ravaged in this pullback, but some equities do offer the kind of stability that is suitable for retirees.

Telecommunications companies tend to be stable dividend payers. **Telus** is a top Canadian telecom. Its shares have only dropped 2% in 2020 as of close on March 10. The company has achieved over 15 consecutive years of dividend growth. Right now, Telus stock pays out a quarterly dividend of $0.5825 per share, representing a solid 4.7% yield. Telus is targeting a 7-10% annual dividend increase from 2020 to 2022.

Utilities are another good bet for retirees. **Emera** is a Nova Scotia-based utility. Its stock has climbed 2% so far this year. Shares last had a favourable price-to-earnings ratio of 20 and a price-to-book value of 1.8. Emera last paid out a quarterly dividend of $0.6125 per share, which represents a 4.3% yield. The company has delivered dividend growth for over a decade.

Check your cash reserves

Downturns tend to come without warning, so most investors are never as prepared as they would have liked. However, retirees and those nearing retirement should hold a good portion in cash and cash equivalents. Large cash holdings also provide significant flexibility during volatile stretches. For more aggressive investors, this can provide attractive buying opportunities that may allow you to pick up the kind of income-yielding equities we just covered at a discount.

Liquidity can also put your mind at ease, which brings me to the next point.

Tune out the noise

Last week, I'd discussed how investors can emulate legends like Warren Buffett in a choppy market. One of the key attributes that separates a novice with an investing veteran is patience. Buffett and others who have achieved long-term success in the market are able to keep a cool head, even in the most turbulent markets. Retirees can help themselves in this regard by stepping away from the action. Have confidence in your asset allocation and your investment strategy, and do not let the 24-hour news cycle impact your decision making.

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