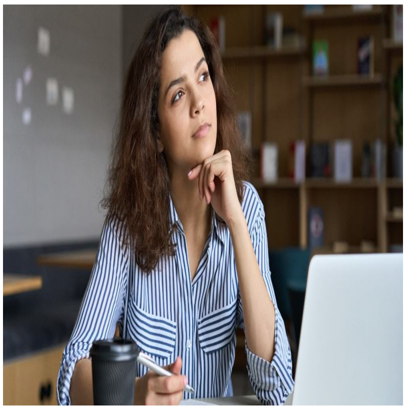

3 Stocks for the 30:30:30:10 Rule of Comfortable Retirement

Description

Retirement planning starts when you are young and continues for your entire lifetime. When you have active income, you build your retirement pool. And when you retire, you plan how to allocate your retirement pool to ensure it doesn't get exhausted early. There are many asset allocation techniques, and one of the most popular ones is the 30:30:30:10 rule.

Planning a comfortable retirement

If you are planning to retire this year, it's time you decide how you want to distribute your retirement pool. Set aside 30% for the children; 30% for yourself to protect against inflation; 30% for regular pension income to meet your everyday living expense; and 10% for emergencies.

Step 1 – Give some money to kids through an RESP

The first 30% could be in a Registered Education Savings Plan (RESP) that you saved for your children's education. If your children are above 21 and don't use it, you can transfer up to $50,000 of RESP contributions tax-free to a Registered Retirement Savings Plan (RRSP). But the condition is you should keep the RESP active for 10 years minimum.

After 71 years of age, the Canada Revenue Agency requires you to close your RRSP. So you can probably transfer some RESP amount to your personal pension pool and some to emergency funds.

Step 2 – Inflation-proof your retirement with a TFSA

Considering the RESP money is used by children, invest at least 30% of the retirement money in instruments that can help you fight inflation. Canada's average inflation rate is around 2%, but the pandemic-like crisis can shoot up the average annual inflation rate to 3.4%. It's better to prepare for the worst. Allocate 30% of your retirement pool in long-term growth stocks that give at least 5%-7% average annual returns. Invest this amount through a Tax-Free Saving Account (TFSA) to ensure tax doesn’t eat up your inflation hedge (investment returns).

Gold is considered to be an inflation hedge as the gold price tends to rise when currency’s value dips. But it underperforms the market in good times. Hence, you should diversify into other inflation-hedge assets like commodities and real estate. **Suncor Energy** and **SmartCentres REIT** are good stocks that can give you exposure to these asset classes while disbursing regular quarterly or monthly dividends.

Suncor Energy has the power of oil with it. Fuel price is a major factor leading to high inflation. In 2021, transportation prices surged 7.2%. Excluding energy, the 2021 inflation rate stood at 2.4%. Higher fuel price allows Suncor to sell its fuel and gasoline at a higher price and pocket the extra cash. Hence, its stock surged 48% in 2021, making up for high inflation.

Real estate is another sector that benefits from high inflation as rent increases with inflation. SmartCentres is the largest retail REIT in Canada and benefits from being a landlord to **Walmart** stores. The REIT is expanding into mixed-used properties like residential, offices, and storage spaces. That will broaden its portfolio and diversify its risk from high exposure to the retail sector.

Step 3 – Generate a regular flow of retirement income with the RRIF

Once you have secured your retirement income from inflation, secure regular cash flow with a Registered Retirement Income Fund (RRIF). The Canadian government provides pension income, but that may not be enough to meet your daily expenses. Hence, it is important to have a personal RRIF. If you are 71, you need to close your RRSP, and any withdrawals from this account are taxable. Hence, it is advisable to transfer your retirement fund to a RRIF tax-free.

You can invest in bonds, ETFs, and dividend stocks like **Enbridge**. Enbridge has been paying incremental dividends for over 26 years from the toll money it collects for transmitting oil and gas through its pipelines. The company can continue to pay regular dividends for another 10 years and more.

Step 4 – Have a higher emergency fund

Lastly, you need to set aside emergency funds. Do not invest this money in stocks, but rather money market instruments that have high liquidity. With the right asset allocation, you can enjoy a comfortable retirement.

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