



Retirees: Here's Why ETFs Beat Stocks

Description

If you're retired, you need to invest. CPP and OAS combined don't pay enough to cover your expenses, and not everybody has a generous employer-sponsored pension to help them pay the bills. So, investing is essential. The question is, *what* should you invest in? As you've probably heard, stocks have high-potential returns but are risky. Bonds are fairly safe but have low (sub-inflation) returns. Given these choices, where should you put your money?

One common answer to that question is [exchange-traded funds \(ETFs\)](#). ETFs are built on portfolios of stocks or bonds, but they are very diversified. By spreading the investor's eggs across multiple baskets, they reduce the risk of it all going to nothing. To be sure, risks still remain, even in diversified portfolios. But the risk is generally lower. In this article, I will explain why, as a retiree, you may be better off putting your money in ETFs rather than stocks.

ETFs have built-in diversification

The biggest advantage ETFs have in their favour is the fact that they are diversified. Diversifying your assets reduces your risk. There are two components to risk in assets: systematic risk and market risk. Systematic risk is the risk in the specific thing (e.g., the risk a pharmaceutical company fails to get regulatory approval for a drug), while market risk is the risk inherent to the entire asset class.

ETFs have less systematic risk than individual stocks, because they spread their money out across many different assets. Consider **iShares S&P/TSX 60 Index Fund** ([TSX:XIU](#)), for example. It holds [60 different stocks](#). That means that if anything bad happens to one of them, others could make up for it. Sure, you still have risk with XIU. But it is much lower than the risk in any one stock that's part of the portfolio. In exchange for this built-in diversification, you pay a very low 0.16% annual management fee. So, it's a great asset to consider owning.

Picking individual stocks is hard

Another reason ETFs are a good idea is because picking individual stocks is extremely hard. All of the

relevant information on stocks is publicly available, and everybody can access it. So, in order to outperform, you need to beat people with access to the same information you have. This is unlikely to happen.

History is full of examples of stocks that seemed to be doing great only to tumble into the abyss later. **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), until recently, was delivering nearly 100% CAGR returns. But this year, sentiment toward growth stocks tilted negative, and SHOP started falling. The losses really began to accelerate when SHOP released a quarterly release that showed a big miss on GAAP earnings. Today, SHOP is down more than 60% from its all-time highs — this from a stock that was crushing it until recently.

The lesson?

You never know what will happen with individual stocks. Sure, you can get rich, but you can also get just the opposite. So, if you're retired, you may do better with ETFs over the long run.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)
3. TSX:XIU (iShares S&P/TSX 60 Index ETF)

PARTNER-FEEDS

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Date

2025/07/02

Date Created

2022/02/22

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