Retirees: How to Stay Calm in Market Downturns

Description

We're hardly in a market downturn. The Canadian stock market has declined about 7.5% from its 52-week high. The U.S. stock correction has it worse — it's down approximately 15%. It's been a while since we've had a bear market. The market has experienced a drop of about 30-50% in the last two market crashes. So, the current market decline may be making some investors uncomfortable. How can investors, especially retirees, stay calm in market downturns?

Have enough cash to weather market downturns

You should have enough cash for your everyday needs. Cash or cash equivalents are cash, or safe investments that you can quickly turn into cash. Think savings accounts, short-term GICs, money-market funds, or short-term bonds.

Some retirees have sufficient cash to fund their cost of living for three years, assuming market downturns don't last for more than three years. They might have incorporated a laddered GIC strategy, under which GICs expire three, six, nine, and 12 months from now, for example.

Knowing that you don't need the money from your long-term investments should work wonders in helping you stay calm in market downturns.

Hold quality stocks

Invest in quality stocks only. During market downturns, pretty much every stock is sold off. However, the quality ones will always come back. In fact, when the downward trend of the stock market reverses, it's usually a flight to quality stocks first.

What are quality stocks? They are wonderful businesses that persistently grow earnings in the long run. Naturally, it would be safer for retirees to focus on those businesses that have high predictable and therefore little uncertainty in their earnings.

Royal Bank of Canada, **TELUS**, **Fortis**, and **Constellation Software** are good examples of wonderful businesses. To add another layer of safety, investors should buy these stocks during market downturns when the stocks trade at meaningful discounts from their normal fair valuations. At their recent quotations, RBC, TELUS, and Fortis stocks are fairly priced, while Constellation Software trades at a worthwhile discount of about 24%, according to the analyst consensus price target.

Knowing that you hold quality stocks and that they'll revert back after a market downturn should help you sleep well at night.

Earn safe and growing dividend income

Ideally, investments for retirees should pay out safe and growing dividend income. It would be even better if the investments pay high yields, as many retirees often collect dividend income, for example, as a source of everyday spending.

What's a high yield? Lowell Miller, the author of *The Single Best Investment*, suggests that a high yield is 1.5 to two times that of the market yield. The Canadian stock market yields about 2.7% at writing. So, a high yield would be approximately 4-5.4%. Among the dividend stocks mentioned earlier, only TELUS fits the bill.

Investors should pay particular attention to the "high-yield" criterion when making new investments. In most cases, staying invested in quality stocks, which ideally pay good dividends, is a sure way to make long-term wealth. It would be extra work for retirees to manage their portfolios too closely anyway.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/09/26
Date Created
2022/05/18
Author
kayng