FINANCIAL WISDOM

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The Safe Investing Dilemma

As John nears retirement he is becoming concerned about covering his future living costs with income from only interest-bearing investments. Along with many other investors globally who have poured trillions of dollars into government bonds over the past decade, John wants to feel safe and have his money guaranteed. But the price of safety in a low interest rate world is higher than you may realize.

For example, the best five-year GIC rate in Canada is currently about 5.0%. The after-tax return is between 3.0% - 4.0%. But if we include current inflation figures the net return is almost zero.

Legendary investor Warren Buffet once observed that many fixed income investors continually "miss the party" as equity investments have continued to outperform fixed income investments over the long term. "I don't know what I would do if I were in that position", Mr. Buffett said at Berkshire Hathaway's annual meeting. "I feel sorry for people that have clung exclusively to fixed-dollar investments."

The real dilemma for John is finding the correct balanced between short term (volatility) risks and the long term (inflation) risks And which is worse - watching an investment balance bounce around, or a guaranteed investment losing a lot of purchasing power over time?

Purchasing power loss is one of those things in life that is hardly noticeable on a day-to-day basis. For example, John remembers his teen years when he could buy three loaves of bread for a few dollars. Today, he can't even buy two loaves for five bucks.

Preserving purchasing power is vitally important to avoid running out of money during one's retirement years.

When included in a properly balanced portfolio, equity investments may help maintain and possibly increase purchasing power over time - both for retirees and for people still building their savings. In today's financial environment the dividend returns on many of Canada's largest companies (equities) are higher than the interest earned from 10-Year Government Bonds. This is also true for many Canadian equity mutual funds.*

The key issue is to find a way to properly balance the short term risk of market ups and downs with the long term risk of loss of purchasing power.

There are many different options available today for achieving a properly balanced portfolio during retirement. Contact our office to discuss your personal retirement portfolio strategy.

Questions about the best retirement portfolio strategy. Give us a call!

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