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## Don't Give Up on Growth

If you are a prudent investor, then you have a financial retirement plan that will ensure you have sufficient funds for the lifestyle you envision after you stop working. What constitutes sufficient depends on your ambitions and your hobbies, and also on how long you live. **People are living longer**, and it's not unreasonable to think that you could live into your 90s.

It can be quite sobering to think that you will live for 25 years after you leave employment. We are conditioned to believe that in retirement, our portfolio should be solely in safe investments, as without work there is no guaranteed pay cheque anymore.

**The rule of thumb** used to be that by making a calculation of 100 minus your age you could roughly determine how much of a portfolio should be invested in growth-orientated investments; so at 65 you would aim for 35% in equity investments and 65% in less-risky investments such as bond funds or GICs. But there is an argument saying despite needing safe investments, so you can be sure the money is there to draw out each month, the funds you won't need for another 10 or more years need not be so conservatively invested.

With the length of time that you might reasonably hope to live into retirement, you have an ample time for equity investments to go through their growth and consolidation cycles, and still be able to sell them at a reasonable value. This is not so different from the situation of someone in their 40s considering that they can invest a reasonable proportion of their portfolio in growth funds, and still be sure of the money by retirement age.

Several years ago, a large wealth management firm issued a report, which stated that a retirement portfolio must be expected to last for decades - not years. The report tested different assumptions of investment and spending. With a 5% spending rate, the report considered three portfolios with 20%, 40% or 60% growth investments, and the rest in safer investments (bond funds).

Surprisingly, all three portfolios have about the same chance of lasting a couple retiring at 65 until they were 85. However, the most conservative portfolio distribution only has a slightly better-than-even chance of lasting to the age of 90, whereas the 60% equity allocation has a 70% chance. The report concluded that a 60%/40% portfolio- if you reduced the withdrawal rate to 4% - had an 85% chance of lasting until death.

With a **well diversified portfolio** and a multitude of different investments, it can be difficult to decide which funds could be re-positioned most effectively for higher growth. You will certainly want to keep diversified, unless you are a gambler willing to risk being rich or poor at the whim of the markets.

You will also need to **pay attention to tax issues**, particularly as these are different from those you are used to encountering from years of work. When compounding is applied to investments, the effect of figuring in different tax situations can be significant, and you should always aim to minimize the amount of tax that you legally have to pay.

Your financial advisor can review your portfolio and direct you how best to set it up for the years ahead.

**Contact our office if you have retirement questions.**

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