Finance for Life™

Achieving Financial Success™

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Practical Wealth Creation Ideas

...for Simplified Financial Success™

Financial Freedom: FIXING YOUR MIX WITH EQUITY FUNDS

Make sure your money lasts a lifetime in order that it can provide an income for 20 to 30 years of retirement.

Before the last recession, when interest rates were higher than 10%, retirees relied on fixed income vehicles to generate an income to meet their needs. Today, however, the Government of Canada's 10-year bonds yield only about half as much! Who knows just how much lower that can go? For your immediate income needs, bonds and money market instruments provide a large amount of capital protection, and a moderate rate of income and/or growth. In today's low interest rate environment, including higher-risk investments, such as equity funds, is wise.

Equities give your money the potential to experience a capital gain enabling your investment portfolio to last a lifetime. What is your overall time frame? For any period greater than five years, equity funds may offer the best inflation fighting power. Diversified, broad-based portfolios investing in Canada or the United States, generally are the safest bets if there is a chance you may need to tap into your money earlier. Because these tend to be less volatile, there is less chance you will cash out during a dramatic swing downward.

If you are fairly certain you won't need to rely on the equity portion for some years to come, specialty funds can have their place. Country, region, or sector specific funds which can have prolonged downturns, and that could be financially devastating if you can't wait for things to turn around. Yet if you have over five years to invest, these funds may certainly be appropriate.

A good portfolio rule is to ensure you have sufficient cash flow for several years with the purchase of money market funds, bond funds, and other income generating instruments. With the remainder, invest in equity funds. Historically, over most time periods, equities have outperformed fixed income. While this does increase the overall risk, it helps your money to grow sufficiently to beat inflation and meet your retirement goals.