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Portfolio can make big gains in retirement: Russell

April 04, 2008 | Bryan Borzykowski

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For most people, retirement means slowing down and taking it easy, but not for savvy investors. According to Russell Investments Canada, 60% of retirement portfolio growth can come during a client's post-working years.

"It's a continuation of the compound interest story that you tell clients about in pre-retirement," says Russell's president and managing director Irshaad Ahmad. "We've been working with institutional clients and pension funds for a long time so we've known that number was always big, because that's the way pension funds think about their portfolio."

Ahmad says a lot of people have the idea that their investing activity should slow down in retirement, but that thinking is all psychological.

"We come to the end of a working career, so everything else must be changing as well," he says. "The reality is some people are going to be retired longer than they work in some cases. We're only really starting to think about this as a society now, so these are the types of things we might find initially counterintuitive; if you spend time thinking about it, it sort of makes sense."

Investing in retirement, however, is a different game from playing the

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portfolio is. How much should that be out of total savings?

Cynthia Kett, a CFP with Toronto-based Stewart & Kett Financial Advisors, says Russell's findings on retirement investing don't apply to everyone. "Some individuals receive most of their retirement cash flows from pensions, some from investments and some from inheritances," she says. "One-size-fits-all definitely doesn't apply."

She adds that cash flow sources must be co-ordinated with the spending needs of the retiree. "What role does the investment piece of the puzzle play?" she asks. "Is it a source of ready cash, steady income, inflation-protection or tax-efficient growth?"

Russell responds, saying the 35%/65% split makes the most sense as it combines growth with managing downside risk. "It produced the best compromise between long-term growth and short-term risk," says Ahmad. "You might get more growth at 50% equity, but then you're sacrificing too much security. At 20% equity, you get more short-term preservation, but you're giving up too much long-term growth."

Ahmad says Russell's main message is that today, retirement doesn't mean the end. "The big message here is that when someone stops working they're only halfway done their retirement journey." He notes that couple is expected to spend up to 30 years in retirement, so "that's 30 years of growth. You can't just think money markets and bond funds; you need to think broadly and more long term."

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