

Build up and maintain a diversified investment portfolio

By Jim Carmichael

Canadians are enjoying the lowest rate of inflation in decades. In fact, the total for the year could average below two per cent.

But having interest rates so low is actually a mixed blessing. On the positive side, the cost of living as measured by the Consumer Price Index is pleasantly low. Another major benefit is extremely low mortgage rates.

On the negative side, however, is the fact pensioners living on fixed incomes are bitterly disappointed at the low rate of return they get from such investments as guaranteed investment certificates. There's nothing wrong with guaranteed investment certificates. Quite the contrary. A certain portion of your total investments should be in the form of GIC's that reach maturity this year cannot be replaced with the same level of interest earned when they were purchased five or 10 years ago.

Pensioners who are in this predicament deserve our sympathy. But they are

authors of their own misfortune - because they relied on a single type of investment. There's nothing wrong with guaranteed investment certificates. Quite the contrary. A certain portion of your total investments should be in the form of GIC's.

Trouble arises if you put all your eggs in a GIC basket. The only way to avoid such trouble is to build up and maintain a diversified portfolio of investments. This rule applies to pensioners as much as it does to those Canadians still in the active workforce.

If you are nearing retirement you should seek professional advice to ensure that your retirement income is not over-exposed to one particu-



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lar factor, such as interest rates. You should consider investing part of your portfolio in bond, dividend and mortgage mutual funds. These types of funds allow you to hedge against both ris-

ing and falling interest rates.

Professional financial planners find that some pensioners have obtained investment advice at the time of their retirement and from then on, stick with the established portfolio. In fact, an investment portfolio should be reviewed on a regular basis, ideally once a year. That's because economic and stock market conditions are forever changing, which may require you to adjust the weighting of your portfolio investments.

As well, tax rules are changed every now and again, which may directly affect your after-tax income.

It is in your own best

interest, therefore, to seek pre-retirement advice and regular financial check-ups during your retirement years. You cannot afford to sit back and relax just because you had an initial retirement income plan drawn up. An effective plan isn't a static thing. It demands regular reviews and periodic adjustments.

A sad fact of Canadian life today is that less than one-third of Canadians now in retirement are enjoying a comfortable standard of living. One reason for this lamentable state of affairs is that only about 40 per cent of the workforce belongs to a pension plan. The rest face a

severe decline in their standard of living when they retire if they are depending on the state to look after them in retirement.

Even when you combine the Old Age Security (OAS) and Canadian Pension Plan (or Quebec Pension Plan) monthly payments, your retirement income will be barely above Canada's official poverty line.

That's why it is so important to adopt a long-range investment plan as early as possible and make sure it is reviewed on a regular basis.

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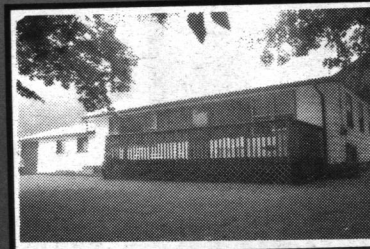
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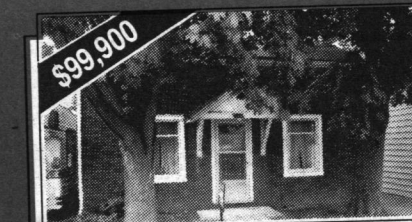
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