Personal Finance

Six key guidelines for RRIF investors

Review your asset mix to ensure it's in line with your income needs and risk tolerance.

By Michael Ryval | 26/02/18

Consider this scenario: You turned 71 this year and, despite the recent equity-market downturn, your RRSP portfolio has grown very nicely over the years during the prolonged bull market. Yet as you ponder your good fortune you realize that you need to convert your RRSP to a registered retirement income fund (RRIF) by year-end, and face this problem: Your asset allocation is way out of line with your original target mix. What can you do?

The answer: Plenty. There are numerous ways to get back on course and rebalance your investment portfolio, both within a registered and non-registered account. Here are six key guidelines:

1. Review your financial goals and your risk tolerance. "This is a good time to revisit your risk profile," says Tina Tehranchian, a certified financial planner and senior wealth advisor at Assante Capital Management Ltd., in Richmond Hill, Ont. "We would do this when it comes time for the transition to a RRIF, and, ideally, even a few years earlier. You don't want to be in a situation where all of a sudden you realize that your portfolio is way too risky for an income portfolio." The exercise would entail deciding how much to withdraw from a RRIF, and whether it should be more than the minimum. This, in turn, will determine the asset mix.

If capital preservation is your goal, "you should create what I call a down-market strategy," says Jonathan Rivard, a financial advisor at Edward Jones in Richmond Hill. "You want to start by rebalancing your mix of equities and fixed income and, if necessary, add to the bond allocation to protect your portfolio against short-term dips in the market. Having high-quality fixed income is important for retirees."

Rivard adds that the asset mix has to take into account a myriad of factors such as future income needs, expected lifespan and health. At the same time, he urges portfolio diversification. "The bottom line is that you want to ensure that you are balanced across industries. Whether that is cyclical stocks or financials or utilities, you need to have exposure to different areas of the market."

2. Consider raising the cash portion of your RRIF portfolio to fund withdrawals. If you are having to constantly sell investments to meet the withdrawal requirements, you may be forced to sell during a market downturn. "Those market dips can work against you. And you will never have the opportunity to recover," says Marc Lamontagne, a certified financial planner and partner at Ottawa-based Ryan Lamontagne Inc. The way to prevent having to sell investments at the worst of times is to keep a sufficient cash reserve.

3. Rebalance your portfolio periodically. "Even if you only rebalance once a year, you can make the call to increase the cash bucket, as opposed to continually watching markets," says Lamontagne. "You want to have enough of a buffer -- and in certain cases you may want to have three years' worth of RRIF withdrawals. If we are in an extended bear market you won't be forced to sell equities when markets are down." In extreme cases, Lamontagne points to situations in a bear market where the cash has run out but the investor can always sell some fixed income, which will take much less of a hit than equities.

4. RRIF portfolios can be rebalanced without tax consequences. Tehranchian says rebalancing gets tricky when an individual also has non-registered accounts. If that's the case, rebalancing will require careful planning, and time to stretch out the gains to soften the tax blow. "It's a balancing act between reducing risk and triggering taxes."

Within registered accounts, the only exception to the recommendation to rebalance all at once, advises Lamontagne, is if we are in a bear market. "This is where it may make sense to wait for the market to recover."

5. There are no hard and fast rules about RRIF asset mix. "A lot depends on the client's situation," says Tehranchian. "Some clients don't need RRIF income, because they have enough business income or pension income and other income sources. In one extreme situation, a client has very high equity exposure because he is very comfortable taking risks and has been in stocks all his life and doesn't need the RRIF income," says Tehranchian, adding that the client keeps enough assets in cash so he is not forced to sell in down markets.

6. Accept that market volatility is inevitable. "You have to be comfortable with potential short-term losses, says Tehranchian. "The key question is whether you can wait for a recovery, or not. If you don't need income from your portfolio for the next 10 years, you could probably wait it out. But people who need income are a different story. They have to sell."

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