Investing for Cash flow

How to Generate Steady, Tax-Friendly Income From Your Portfolio

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After a lifetime of hard work, you've arrived. Now that you're retired or fast approaching retirement, it's time to review your financial plan to consider what your future income needs will be. Some of your expenses, like mortgage payments, will likely be lower. Others, like travel or medical expenses, may be higher.

And, if you're like a growing number of Canadians, you're looking to generate capital appreciation and a steady, tax-friendly cash flow from your investment portfolio. How do you get there from here?

Getting there

To identify your cash flow needs, you first need to consider what sort of lifestyle you hope to lead throughout retirement and, based on your financial resources, determine how to reach your goals.

A cash flow analysis is an effective way to gain a clearer understanding of your retirement picture. This analysis includes a review of all income you will receive from various sources such as OAS, CPP, company pension plans, and income you may receive from an investment plan. On the opposite side of the ledger, you will want to review all expected expenses.

The purpose of this analysis is to show the cash flow you will have available to support your retirement lifestyle. See Figure 1.

Your retirement income strategy

Once you have examined your cash flow needs for the future, we will customize an investment strategy targeted at achieving a consistent level of cash flow that will support your lifestyle. Quite often this will entail making adjustments to your current investment portfolio as retirement is a time when investors need to protect their investment assets that have grown over the years. So it is not uncommon to reduce exposure to assets that are geared towards long-term capital growth and shift towards financial products that primarily focus on providing you with income.

So called "safe haven" investments like bonds, mortgages and guaranteed investment certificates have been the product solution to meet cash flow needs since they typically offer the lowest price volatility. But they also typically produce the lowest relative return and can have immediate tax implications. The problem with this tradeoff is that while you may be protecting your capital, you are not adequately protecting your purchasing power which could decline rather rapidly due to the ever present effects of inflation. To support your retirement lifestyle you will likely have to move beyond the relative stability of guaranteed income securities into investments that offer the potential for greater returns and potential tax efficiency.

Figure 1

Cash Flow Analysis

Income Sources		Expected Expenses	
Pension	$	Medical	$
OAS	$	Mortgage	$
CPP	$	Travel	$
Other	$	Monthly Budget	$
	$		$

Source: Strategic Investment Planning

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Balancing your income needs with your risk comfort level can be challenging. That's why one of the more effective methods used to meet cash flow needs is to take a portfolio approach. With this approach we can not only structure a well balanced investment portfolio that meets your cash flow needs, but also give consideration to protecting purchasing power by seeking moderate capital growth.

With a portfolio designed to meet your objectives we can combine investments in such a way that the income flow received is derived from a number of different asset types that produce different types of income.

Investors Group offers a complete selection of dividend funds designed to provide a stable and steady income stream, and considerable capital growth specifically to support individuals in retirement.

Once we have determined your optimal investment portfolio, your investment strategy should give some consideration to how you will withdraw cash flow from your portfolio. Taking a fixed dollar amount at regular intervals is certainly the simplest method, but during periods of market declines it accelerates the draw down of capital and increases the possibility of outliving your nest egg. As long as you are still able to meet your expenses, a slight variation could entail taking out a fixed percentage at regular intervals. This improves the capital preservation capability of your portfolio, as you take less out in down market cycles.

By working together, you and I can appropriately gauge your future cash flow needs and eliminate any complexities in designing and managing your investment portfolio. Through investment alternatives such as the Alto™ Monthly Income Portfolios, Investors Group offers investment planning solutions that are geared for steady cash flow, and can help protect your purchasing power.

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