# Is it time to consider GICs?

## Managing Your Money

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With the stock and bond markets continuing to spook many investors, some are asking themselves if GICs might be a good option. This month we'll take a look at GICs and when they should be considered as an investment option. Firstly, there is no perfect investment. All investments have pros and cons, and in this article, we'll consider those of GICs.

GICs are stable, and your investment value doesn't fluctuate while invested. For this reason, we will sometimes recommend them as a place to park money temporarily. Often as a better alternative to keeping it in a chequing account. However, with the small difference in rates, many people, when given the option, prefer High Interest Savings vehicles instead of short-term GICs. This is the case especially if they aren't sure how long the money will be parked for. High Interest Savings accounts are fully liquid and can be cashed in anytime. They may pay a slightly lower interest rate than short-term GICs, but in the rising interest rate environment we're in, the rate on a High Interest Savings account will increase as interest rates rise, while GIC rates remain locked for the term of the GIC. So, if flexibility and liquidity are important, High Interest Savings vehicles might be a better option.

Relative to the interest rates that we've seen on GICs for the past decade, the current rates appear rather attractive. But I will caution those considering investing in GICs now that interest rates are expected to increase further and may leave investors wishing they had waited to lock in a rate. Remember, they are an illiquid investment. Once you buy one, you are locked in until maturity.

Another caution I will explain is "net return". With 5-year GIC rates easily passing 5% as of last week, some people are considering them as a good long-term investment. However, 5% returns are not all created equal, and the reason is taxes! Net return is "what's left in your pocket". Investment returns are not all taxed the same way. GICs fall into the category that has the worst tax efficiency.

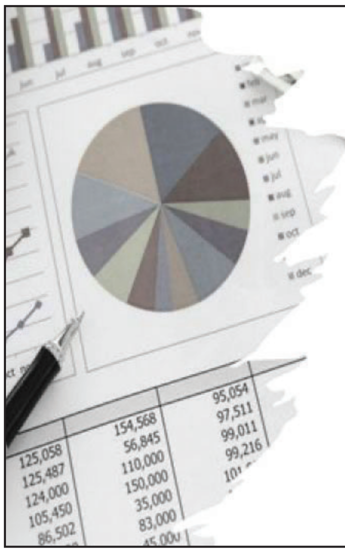
The other part of "net return" to consider is inflation. We are currently experiencing hyperinflation – eventually, inflation will come back to more reasonable levels. The Bank of Canada is targeting 3% by the end of 2023 and 2% by the end of 2022. If you're buying GICs as a long-term hold, you must deduct the inflation rate to determine your "real rate of return" or how much the "value" of your money is growing (or shrinking). So, when all is said and done – that 5% GIC return no longer looks as appealing.

After those points, GICs probably don't sound like a very good long-term investment option, and in our opinion, they're not, except…. There are those investors who can simply not live with seeing fluctuations in the dollar value of their investments. It makes them feel sick, they lose sleep at night, etc. For those investors, GICs may be the solution, if they are willing to accept the tradeoffs. In their case, their risk tolerance better suits more stable investment products. I've written some recent articles on the importance of properly assessing your risk tolerance – investment strategy decisions should always be tied in with that. If your risk tolerance has changed, then your investment strategy probably needs to change as well; but prudent investors and advisors will change the strategy when the timing is right.

While we can't predict the future, we can hypothesize that with some stability around inflation and the economy, things will eventually get back on track and markets will start an upward trajectory. For those investors who feel like they need to change their investment strategy from fluctuating investments to GICs, the logical time to do so would likely be *after* the recovery of the markets and not when the markets are in the dumps. The expectation of stopping losses in the market by selling and recovering those losses in GICs is just not realistic. The graphic attached reflects a similar time where markets were down, and inflation was high. It shows two different results depending on the choices an investor made.

GICs are like a car's brakes. The brakes are really important, but you need an engine to advance, and a suspension for stability – so then the question is – what kind of car suits you? A Ferrari might be fast, but with a tight suspension, it's going to be a bumpy ride. On the other hand, a luxurious Cadillac will provide a nice smooth ride, albeit slower. GICs, cash, and High Interest Vehicles have a place in a portfolio, but in order to advance, there needs to be more to it. Like in a car – if you have no engine, you're not going to get anywhere.

For those who realize they may need to change their investment strategy and feel their risk tolerance level is more conservative, it's worth mentioning that GICs may not be the only option out there: Principal Protected Notes and Structured notes could be alternatives to consider. If you feel a change is needed, revisit your risk assessment and reassess your investment strategy with your advisor.



### Bear Market Decisions

**Value of $1,000,000 invested in the S&P 500 Jan. 1, 1973:**

| | |
|---|---|
| 3 Months Later… | $951,200 |
| 6 Months Later… | $896,310 |
| 9 Months Later… | $939,510 |
| 12 Months Later… | $853,450 |
| 1 Years, 9 Months Later… | $573,780 |

**AT WHAT POINT DO YOU THINK MOST INVESTORS WOULD HAVE GIVEN UP AND THROWN IN THE TOWEL?**

**$573,780 removed from the market and reinvested in an interest bearing CD at 5%:**

| | |
|---|---|
| 6 Months Later… | $588,130 |
| 12 Months Later… | $602,470 |
| 2 Years Later… | $632,590 |
| 5 Years Later… | $732,300 |
| 10 Years Later… | $934,620 |

Source: Salomon Smith Barney Consulting Group

### Bear Market Decisions

**What if you had kept your $573,780 invested in the S&P 500 instead of going into cash?**

| | |
|---|---|
| 6 Months Later… | $771,570 |
| 12 Months Later… | $792,620 |
| 3 Years Later… | $1,034,040 |
| 5 Years Later… | $1,247,680 |
| 10 Years Later… | $2,444,370 |

**FOOD FOR THOUGHT.**

Source: Salomon Smith Barney Consulting Group

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