NATIONAL POST
FINANCIAL POST

**SEPTEMBER 3, 2010**

**Kim Inglis, BCom, CIM**

# Check GICs before you buy

## Investors should think about the possibility of near-term volatility and get ready for it

September is a busy time of year with families returning from holidays and kids heading back to school. It is also a good time to review our portfolios and get organized for the future. It may begin with thinking about what the pundits are saying.

Some economists suggest that the bear is lurking and that we are in for an extended period of downward pressure on equities. Predictions range from a double-dip recession to a 30's style depression. The U.S. economy is retracting and, with so much of Canada's GDP sold into the American market, we can conclude that their problems will affect us. That means investors should think about the possibility of near-term volatility and get ready for it.

Preparation requires a focus on capital preservation, generating income, and being ready to act. These criteria dictate that some of a portfolio be held in cash, but many people inadvertently end up with a different proportion of cash than originally intended because they made hurried decisions. This is too often the case with GICs.

Consider investors who are sitting on cash and not entirely sure what to do with it. They don't have an immediate use for the funds but they want to be ready to seize future opportunities when the prices are right. Meanwhile, they don't want the money to sit in the bank earning little interest, so they buy GICs.

This method of storing cash can become an issue when the investor wants to act quickly but finds that they don't have cash available because their GICs have been rolled over on maturity, locking the funds in for another term. It is what many financial institutions do if instructions have not been provided.

To avoid that scenario, make certain you know the terms prior to investing. If you invest in a GIC with an automatic rollover, note your maturity date and contact your advisor well ahead of the deadline to determine a suitable course of action. If you want to take advantage of opportunities or adjust your asset mix, your funds must be accessible.

Automatic rollovers are doubly disadvantageous when they are processed without consideration of other products on the market. Depending on the state of interest rates, money market or other fixed income alternatives may be more suitable. To store your cash, you may want to explore alternatives like Banker's Acceptances, T-bills, high-yield savings accounts, and certain government or corporate bonds.

In 2009 many investors profited from the high-yield corporate bond market. They capitalized on credit spreads and purchased bonds issued by large-cap names generating good profits and cash flow. Although they took on more risk in their portfolios than would have been assumed by GICs, they kept the risk at bay by purchasing highly rated bonds.

The potential for volatile markets does not mean that you should retreat. Rather you should adjust your asset mix to moderate the volatility in your portfolio, and

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keep cash available for investment opportunities. Storing your cash, while you wait, requires deliberation. If you choose GICs you must also think about the effects of inflation and taxes or they will quickly become a losing proposition.

*Kim Inglis, BCom, CIM is an Investment Advisor. The views in this column are solely those of the author. www.kiminglis.ca*