Question
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YOUR MONEY

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Kim Inglis, BCom

Shop Around For Best Fixed Return Investment Option

Q. Every year I procrastinate on my RRSP contributions. I end up running to the bank at the last minute and put all my money into GICs because they're safe and don't require much attention. Is this really my best option?

A. No, it is not. You're right about the safety of GICs but your approach is wrong. Firstly, you're not thinking about your investing - an activity where thinking and planning are crucial. Secondly, if you leave the thought process to your financial institution you may find that ongoing decisions are not necessarily in your best interests.

The concept of putting some of your investments into secure vehicles is sound, but it requires deliberation and "doing the math". Like other earnings GIC returns are subject to the corrosive effects of inflation and, if held outside your RRSP, taxes. If you keep too large a portion of your portfolio in these lower-return vehicles it's unlikely you will ever accumulate enough wealth to retire.

Now that I have you thinking about your portfolio balance you also need to think about the ongoing decisions with GICs. It is critical to ensure your GIC money works at least as hard for you as it does for the providers, so you may not want them to make these decisions.

One of the most common situations I come across is when individuals invest in short-term GICs at competitive rates of return, making them happy. However, the story sours on the anniversary date when they realize that their financial institutions have locked-in their funds at low rates of return. Many financial institutions simply roll-over GICs at the posted rates, ignoring many higher yielding products. When the posted rate is lower than other products of equal quality your portfolio under-performs.

You want to make certain that your financial institution doesn't roll-over your GICs automatically. If a product is going to be rolled over you first need to ask "What's in it for me?". When you're allowing someone to use your money for a guaranteed period there should be an incentive.

You should also apply strategic and tactical thinking to the secure investments part of your portfolio. For example, by simply changing GIC maturity dates or opting for a different issuer, you can often get a higher yield without taking on more risk.

Shop around – search for the products that best suit your objectives and generate the greatest returns. I encourage you to explore options like Banker's Acceptances, T-bills, money market, high-yield savings accounts, and government and corporate bonds.

You also want to pay specific attention to the safety of the product. The Canada Deposit Insurance Corporation (CDIC)* is a federal crown corporation set up to protect Canadians' savings from failure of banks, credit unions, and other CDIC member institutions but it only insures the first $100,000 of insurable deposits.
*http://www.cdic.ca/index.cfm/ci_id/1218/la_id/1.htm

You will need to take a hard look at the credit quality of different insurers. This is where professional advice is needed as it is easy for the average investor to become overwhelmed with the different rating systems. It becomes increasingly important when conservative funds are at stake.

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