

How GICs beat out bonds

When shopping for fixed-income securities, you may wonder about choosing bonds over guaranteed investment certificates (GICs). While both provide fixed interest payments at regular intervals, GICs offer a number of key competitive advantages over bonds.

- **Attractive rates.** There is a perennial misconception that bonds provide better returns than GICs. But the numbers show that GICs typically offer more attractive rates than Government of Canada bonds with equivalent investment periods. With GICs, you can earn an extra 0.5% to 1% on your money, and sometimes more.
- **No risk.** With a GIC, you can rest assured that your original capital will never decline. In contrast, the price of bonds fluctuates daily with market conditions, much like equities. Someone who purchased a \$5,000 bond may discover it's worth hundreds of dollars less in a market of rising interest rates. Both GICs and Government of Canada bonds are protected by the government against insolvency – in the case of GICs, through Canada Deposit Insurance Corp. (CDIC), Assuris or a provincial deposit insurance organization, within their respective limits.
- **No fees.** When buying bonds you'll have to pay your broker for each transaction, whether by commission or a markup in the price, and the broker may require a large initial investment. You'll never pay commissions or any other costs when you purchase GICs from your neighborhood deposit broker. And because GICs come with no fees and low minimums, you can add to your portfolio without restriction.
- **Simple to understand and compare.** Unlike bonds, the rates on GICs are posted publicly and easy to compare. You don't have to understand complex terms like par, discount, premium, coupon and callable, or ask for professional help to calculate the yield to maturity. With bonds, rates are not public and commissions are buried, so it's difficult to know if you're getting a good deal.

- **Geared to your needs, not the market's.** GICs are always available with the maturity you require. This is especially useful when creating a fixed-income ladder – a highly recommended strategy that lets you harness the higher rates of longer-term vehicles (e.g., five years) while also having access to a portion of your total investment each year. With bonds, you may not get the precise maturities you need to effectively build a fixed income ladder. GIC maturity schedules, on the other hand, are created just for you.

So you can see, on closer analysis, that there really is no contest between GICs and bonds for most investors. GICs emerge as the hands-down preferred solution for fixed-income needs. Why bother with bonds when you can get higher rewards through GICs with no additional risk, and choose from a variety of terms and features?

To learn more about how GICs beat out bonds, contact your local deposit broker.

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