

## Top three reasons to choose GICs over bond funds

Some retail financial institutions may try to sell you on a bond fund as an alternative to a Guaranteed Investment Certificate (GIC). Both are considered fixed-income investments, providing the opportunity to diversify and reduce volatility in your portfolio. But that's where the similarities end: GICs and bond funds are vastly different creatures.

Here are three compelling reasons for sticking with GICs:

### Predictable income

GICs provide a guaranteed income stream. You always know how much to expect, and when. And remember, GICs generally earn 0.5% to 1% or more than Government of Canada bonds with comparable terms.

In contrast, income payments from a bond fund are never guaranteed. Some bond funds and other income funds investing in bonds may advertise a target income level. What may not be clear is that to maintain this payment level in years of low returns, your capital may be drawn down and lumped in with the income paid out to you.

### Capital preservation

With GICs, you can sleep at night knowing the value of your investment will never decline. What's more, your capital and income are both guaranteed under Canada Deposit Insurance Corp. (CDIC), Assuris or a provincial deposit insurance organization, within their respective limits.

Bond funds, on the other hand, fluctuate in value like equity funds. Sure, there may be years when bond funds deliver exceptional returns, but history has shown there will likely also be years in which your investment delivers a loss. It's worth noting that in an environment of stable, low interest rates, it is

generally more difficult for bond funds to earn capital gains that will significantly boost returns. As well, most bond funds invest in a variety of bonds, including higher-risk corporate bonds.

#### Winning formula

Predictable income plus capital preservation and no fees means the portion of your portfolio in GICs is always growing.

**No fees**

When you invest in a GIC, every penny earned is yours to keep. There are no fees of any kind. Even working with a deposit broker to establish a ladder of GICs costs you nothing. A GIC ladder is a time-tested strategy that ensures a portion of your investments is coming due each year and available for reinvestment at the typically higher rates of five-year GICs.

Unlike a GIC (or even a bond), bond funds charge annual fees to compensate the managers who select and sell bonds for the fund. These fees, known as management expense ratios or MERs, average 1.5% to 2% for bond funds, and are deducted directly from your investment each year – no matter how the fund actually performs. So, for example, if the bonds in your fund earned 4% and the MER is 2%, you will earn only 2%; if the investments in the same fund earn only 1%, then your return would be a negative 1%. And if you paid a front-end or back-end load or commission when you bought the fund, you could end up with less.

The reasons for choosing GICs over bond funds are clear. Before you're tempted to try a bond fund, consider sticking with GICs – the investments you know and can depend on for their winning formula of predictable income, safety and low cost.

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