

**Back to Basics**

# **GIC**



**PLANNING FOR LIFE**

**THE WEALTHY WAY™**



**Canadian First™  
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## WHAT IS A GIC?

A Guaranteed Investment Certificate (GIC) allows investors to protect their principal while earning interest income. When you purchase a GIC, you agree to invest your money for a specific amount of time. In return, at the end of the term, you are guaranteed to receive your principal plus a specific amount of interest.



## HOW DO GICS WORK?

Let's say you have \$1,000 that you don't need to access for a period of one year. You want a guaranteed rate of return, so you research GICs and choose one that promises to pay you 2% interest after one year. Along the way, you notice that if you agree not to withdraw your money for longer periods of time, the interest rate is generally higher. So, for example, a five-year GIC generally pays more than a one-year GIC.

However, since you want to be able to access your \$1,000 after one year, you purchase the 2% one-year GIC. At the end of the year, you are guaranteed to receive your \$1,000 plus \$20 in interest. Keep in mind that if you need to withdraw the money earlier, there may be penalty fees and you may receive only your principal investment with no interest.

# WHY INVEST IN GICS?

GICs can play an important role in an investment portfolio, offering a unique combination of security, flexibility and strategic planning through laddering.

## SECURITY

Every portfolio should include some investments that offer growth potential – such as mutual funds – and some investments that provide a guaranteed return. GICs, with their guaranteed return, are one of the most secure investment choices you can buy. As a result, they can reduce risk in your overall investment portfolio.

## FLEXIBILITY

GICs have become much more sophisticated in recent years, offering greater choice and flexibility. Today, you can find redeemable GICs that let you withdraw your money before the end of the term, escalating GICs that provide higher rates the longer you hold them, and variable rate GICs that pay interest rates tied to the prime rate. Often, you receive higher interest rates when you invest higher amounts.

## LADDERING



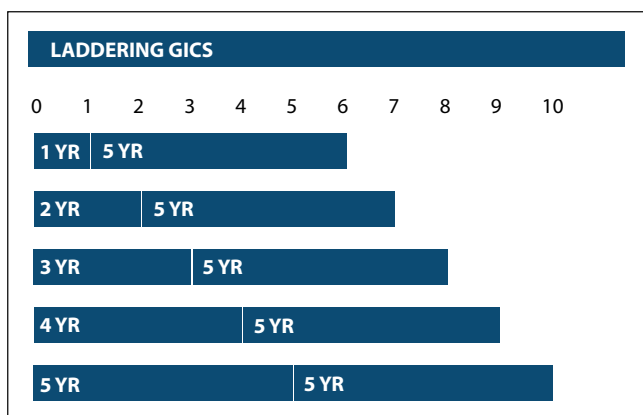
GICs with different terms can be combined – or laddered – in a portfolio to deliver interest when you need it. Laddering can be very helpful for people who depend on income drawn from their investments because, with GICs, they know

exactly how much they will receive on certain dates. This takes the guesswork out of income planning.

Laddering involves splitting the amount you have to invest into equal parts. For example, if you want to generate income, you might decide to invest in five-year GICS, since they pay the highest interest rate.

Based on the five year-term, you could divide the available funds into five and invest the first part in a GIC with a one-year term, the second in a two-year GIC, and so on. As each investment comes due, you reinvest the proceeds in a five-year GIC. This strategy is illustrated in Figure 1.1 below.

### FIGURE 1.1: LADDERING GICS BASED ON A 5 YEAR TERM



#### Laddering GICS in this way:

- Eliminates guesswork on future rates
- Ensures that you have adequate liquidity since a portion of your investments mature each year
- Provides a guaranteed return due to the fixed rate of interest
- Minimizes the risk of locking in an interest rate that is below current market rates since a portion of the portfolio can be reinvested each year at current interest rates
- Maximizes the investor's yield by enabling the purchase of longer term investments that pay higher rates of interest

# HOW CAN I KNOW WHICH GICS ARE RIGHT FOR ME?



Answering these questions with a Canadian First Financial Centres Advisor may help you decide if and what GICs could be suitable for your individual needs:

- What are my personal goals and financial objectives?
- When do I need to withdraw or have access to my money?
- How much risk am I comfortable with?

GICs offer security, income stability and principal protection for your savings as well as guaranteed interest rates on your money for the duration of the term.

Whatever your age or reason for saving, GICs can play an important role in helping you achieve your financial goals while protecting your capital and reducing the overall level of risk in your investment portfolio. Whether on their own or combined with other investments, your Canadian First Financial Centres Advisor can help you select the right GIC product and program to suit your individual needs.

**For your important savings, capital preservation or income needs, ask your Canadian First Financial Centres Advisor if GICs are the right choice for you.**



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**To book your appointment with a  
Canadian First Financial Centres Advisor call:**

**1-866-601-7632**

**or visit us on-line at:**

**[www.canadianfirst.com](http://www.canadianfirst.com)**

**Head office:**

Canadian First Financial Centres Limited

365 Bay Street, Suite 1001

Toronto, Ontario M5H 2V1

T: (416) 598-4141

F: (416) 365-3125

Toll Free: 1-866-601-7632

[www.canadianfirst.com](http://www.canadianfirst.com)

**Your local Canadian First Financial Centres office:**



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