Retirees: Should You Consider Home Capital Group Inc. Subsidiary Oaken Financial's +3% Interest GICs?

Description

As a conservative income investor, rising rates may introduce a level of volatility that's probably a bit too much for you to handle. REITs, telecoms, and utilities are low-volatility income plays, but if you can't deal with 10-20% corrections, you may be better suited for extremely conservative instruments like GICs. You'll need to shop around to determine what's the best pick for you.

If you've got a lot of capital, and you don't mind a non-liquid investment, GICs may be an intriguing option if you're looking to preserve wealth and gradually decrease your exposure to the stock market as you inch closer to retirement.

The Big Five banks likely have similar rates for their fixed-term GICs depending on when you decide to go shopping for a GIC. I'm going to use **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) as a reference for the rates offered on various GICs. Currently, TD Bank offers 14-month term GICs with interest rates ranging from 1.7% on principals less than $10,000 to 1.9% for principals north of $100,000. The term is not too long, but still, you'd be barely fighting inflation at these rates. And opting for long-term GICs probably aren't a good trade-off, since marginally higher rates probably aren't worth the substantially longer term of illiquidity.

If you're looking for higher interest rates, Oaken Financial, a division of **Home Capital Group Inc.** (TSX:HCG), is offering very compelling and competitive rates for its GICs. Right now, Oaken offers 3% interest for 18-month term GICs, and the rates go well above the 3% levels for long-term GICs. That's pretty attractive, but before you go all-in on these GICs, you should know that you'd be taking on a bit more risk than the typical GIC that's offered by your bank (assuming you're a Big Six customer).

Home Capital Group is an alternative lender that was on the brink last year until Warren Buffett came to the rescue. Alternative lending is a risky business, and if Home Capital Group went under, you'd be relying on the Canada Deposit Insurance Corporation (CDIC) to recover your capital lost in a wreckage.

Sure, the GICs are still "guaranteed," but CDIC will only protect deposits for up to $100,000 for financial institutions that are CDIC members. That means if you invest over this amount, you may not be protected under CDIC, and your wealth could go up in smoke should Home Capital Group go under.

Oaken Financial's GIC rates are very compelling, but make sure you stay well below the $100,000 limit, otherwise you could be on your own in the worst-case scenario. In addition, it may take days, weeks, or potentially months for CDIC to return your insured capital, so if this lack of liquidity is a concern for you, it's probably a better idea to stick with the lower-rate GICs offered by your bank.

GICs are meant to be among the safest of investments, but if you're looking for better rates, you may have to take on a bit more risk. If that's going to stop you from sleeping at night, then don't bother with higher-rate GICs from Oaken or any other Home Capital Group subsidiary. But if you're comfortable with the circumstances, and you're going to stay below the CDIC insurable limits, you may wish to complement your portfolio with a higher-rate Oaken GIC; just make sure you fully understand what you're getting into.

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