Should You Transfer Your Money From GICs to Dividend Stocks?

Description

It's so easy to automate things that some Canadians might automatically renew their GICs at the end of the maturity dates. However, they might have missed that interest rates are ultra low right now. Therefore, GICs don't earn the income they used to during a high-interest rate environment. It may be a better idea to transfer the balance from your matured GICs to dividend stocks.

Should you transfer your money from GICs to dividend stocks? Here are some questions to answer to help you determine if switching some money from GICs to dividend stocks makes sense.

When do you need the money?

If you need your principal back within two years, it would be much safer for you to stick with GICs, despite them earning low interest income. We never know when a bear market will hit. A longer investment horizon allows you to ride through market corrections such that your investments earn a satisfying rate of return.

Generally, it would be best to put money in stocks if you have a long-term investment horizon of at least three to five years. Ideally, you would be investing for decades so that your money can compound and grow for a long time.

Can you stomach the risk?

Before you put your GIC money in stocks, you need to ensure you can stomach the risk. When discussing risks, often, stock volatility comes up. That is, stock prices go up and down. Stock market crashes can translate to a 30-50% cut of the balance in your stock portfolio!

However, the real risk is not volatility. The real risk is investors losing money from selling at a loss. You can greatly reduce your risk of losing money by ensuring you're buying wonderful businesses that are growing their profits over time. Additionally, don't overpay for stocks.

Get more income from dividend stocks

By buying safe dividend stocks that pay nice yields, you can earn more income. The best five-year GIC rate is 2.2%. If you trust your Canadian bank in paying you that rate, you might as well get a bigger income from your bank by buying its stock.

The Canadian banks operate in a regulated environment such that their profitability is protected. In the long run, **Royal Bank of Canada** stock has delivered total returns of 9-12%. The total returns include dividend income and price appreciation.

Right now, RBC stock is fairly valued and yields 3.3%. The leading Canadian bank has a track record of paying sustainable dividends. And it tends to increase its dividend over time. I expect a nice dividend hike from RBC when regulators lift the dividend-freeze ban.

Another dividend stock that you can trust to pay safe and growing dividends is **Fortis**. It owns regulated utilities in Canada, the United States, and the Caribbean. And its portfolio is largely made of transmission and distribution assets. Therefore, its earnings have been and remain highly predictable, which leads to it being one of the top dividend stocks on the **TSX**. Currently, Fortis yields 3.5%.

The Foolish investor takeaway

Indeed, Canadians can get higher income from dividend stocks like RBC and Fortis than GICs immediately. However, the stocks are at best fairly valued. So, if you can, consider waiting for pullbacks to secure higher yields from the solid dividend stocks. You'll better protect your principal that way.

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Date
2025/07/01
Date Created
2021/08/14
Author
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