This Is the Worst Place to Hold Your Money Right Now (Hint: It's Not a Savings Account)

Description

One of the most pleasant surprises of the pandemic (perhaps the only one) was the fact that many of us emerged with more savings than we had before.

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It was simple economics. Lockdowns and travel restrictions meant Canadians were spending less money on discretionary expenses. And job losses and market downturns put most of us on the defence, inspiring us to tighten our budgets and cut out the excess.

Now that we have more cash, a question naturally emerges: where is the *best* place to store your money? And, conversely, where is the *worst* place?

The best place to store your money is a subject for another day. For now, let's look at where you absolutely shouldn't put your extra cash: a long-term, non-redeemable GIC.

A long-term, non-redeemable GIC

A GIC is a form of fixed income that offers more security than traditional investments. GICs usually offer savers higher interest rates than other savings vehicles. But, of course, they come at a cost. In exchange for the higher rate, you have to lock your money away for a fixed period of time.

And the longer you lock your money away, the higher the interest rate.

Of course, like any investment, every GIC comes with different rules and loopholes that make access to your money more or less difficult. A cashable GIC, for instance, typically has a one-year term but will allow you to access your money after only a few months. Redeemable GICs, however, allow you to withdraw your cash at any time.

The *worst* GIC you can have right now, however, is a long-term non-redeemable GIC. As the name suggest, these GICs do not permit early withdrawals — at least not without a penalty. In exchange for more restrictions, your GIC provider will typically give you a higher interest rate.

What's wrong with a higher interest? Nothing. Except, in this climate of low rates, a high interest rate on a GIC isn't saying much. A quick look at **Scotiabank's** GICs will show just how scant these rates are: effective February 3, the interest rate on a five-year, non-redeemable GIC is just 1.35%.

No one knows when interest rates will raise to pre-pandemic levels. But if you lock into a long-term GIC, there might come a point when your interest rate is severely lower than the base rate.

Should you avoid *all* GICs?

I'm hesitant to recommend GICs right now, given the rates. But if you're confident a GIC is right for your extra money, I would recommend a *short-term redeemable or cashable GIC.*

To be fair, you'll get a lower rate for these than a long-term GIC. But the rate will most likely be higher than a saving account, perhaps even higher than a high-interest saving account. The short term ensures your money isn't locked in at an unfavourable rate for two or more years. And the fact that it's redeemable and cashable gives you greater flexibility.

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Before you take out a short-term GIC, however, consider the alternative: boosting your emergency fund. In uncertain times, such as these, it might be better to hold on to extra cash, rather than safeguarding in investments that will earn only a small amount.

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