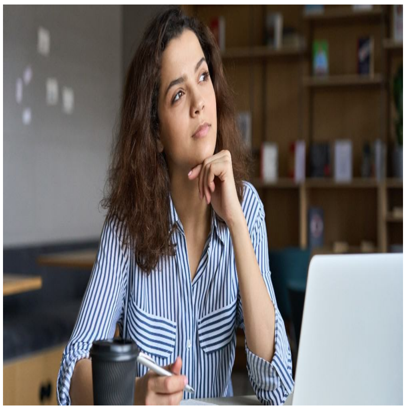

Why GICs Are Making More and More Sense for Your RRSP

Description

If you're an RRSP investor, you might be sitting on some heavy losses this year. If you are, then you may be feeling a little bit nervous. Short-term stock price declines aren't a good reason to sell. But if you're feeling a little weary of stocks and want to move your money into something safer, there is one excellent candidate: Guaranteed Investment Certificates (GICs).

GICs are a kind of fixed-income investment that pays you back a little more than what you initially invested in them. They're offered directly through your bank, so you don't need to worry about tradable security prices worrying you when you invest in them. Instead, you just need to sit back and wait to get back your principal plus a bit of interest on the maturity date. Put simply, GICs are among the "safest" investments around. In this article, I will explore some reasons why GICs are among the best investments you can make in 2022.

Interest rates rising

In 2022, the Bank of Canada is raising interest rates. This is having two effects:

1. It's making high-risk growth stocks less appealing.
2. It is making the yields on GICs go higher.

I've explained the first of these factors extensively in past articles. The higher the treasury yield goes, the lower the price of technology stocks, like **Shopify** (TSX:SHOP)(NYSE:SHOP), holding everything else constant. These stocks typically go for very high prices in the markets due to the assumption of strong future growth. However, when interest rates rise, their growth becomes less valuable. So, you typically see high-growth stocks like SHOP fall dramatically in periods of rising interest rates — even more than most stocks. If you hold a bit of SHOP in your portfolio, maybe you'll get to see it recover some day. I'm agnostic on the topic, so I won't tell you to sell.

What I do know is that if you put some of your money in GICs, you can offset some of the near-term pain you're likely to experience by holding SHOP. Thanks to rising interest rates, the yields on GICs are going up. Currently, **Equitable Bank** is offering 3.75% on a one-year GIC. If inflation falls to the

Bank of Canada’s 2% target, then you may get a positive real return on your EQ GIC! Certainly, it won’t rally like Shopify in its early days, but it may perform better than Shopify this year.

Presently, I have about 15% of my money invested in GICs, and these holdings are definitely proving a worthy buffer against stock market volatility. They will not deliver a positive inflation-adjusted return, but they will help keep some of my savings “safe,” which is important, since I’m currently saving up to buy a home.

Inflation may moderate

Another point in favour of investing in GICs today is the fact that inflation could moderate in the future. As I mentioned earlier, you can now find GICs yielding 3.75%. That’s not bad at all. In the past, Canada’s inflation rate averaged around 2% per year. If the current inflation scare subsides, then we may get back down to that level. If we do, then 3.75%-yielding GICs could give you real returns. So, definitely don’t overlook GICs. They may be the key to navigating this year of stock market volatility.

CATEGORY

1. Investing

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andrewbutton