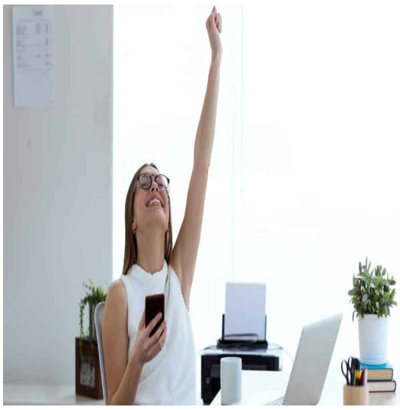

Canadian Investors: This Could Be the Biggest Moneymaking Opportunity of the Decade

Description

It's taken as an article of faith in finance that more risk equals more return. When all other factors are held constant, that is usually the case. But when interest rates rise, it actually becomes possible to get more return with less risk.

The way you do that is by buying treasuries. One of the big ways that central banks raise interest rates is by selling treasuries. As the Bank of Canada sells Canadian bonds, their prices go down, and their yields go up. So, if you buy *after* the interest rate hike occurs, you can get a higher return risk free.

You may have heard talk this year about how bonds are going down just like stocks are, but there are some fixed-income investments you can buy that do not trade on the open market at all. Instead, you just hold them till the maturity date (that is, the date you get paid back). If you do that, you don't have to worry about market prices. In this article, I will explore one low-risk investment that could offer potentially large returns if you hold it long enough.

Guaranteed investment certificates (GICs)

GICs are fixed-income investments offered by banks. Their "interest" is paid at maturity and their yields tend to follow Canadian bond yields. Unlike Americans, us Canadians can't just go out and buy our country's bonds any time of the year. Canada bonds do get sold to retail investors, but the sales are for limited periods of time. However, you can buy GICs from your bank and get yields similar to those paid by Canada bonds.

One bank offering huge yield

Equitable Bank (TSX:EQB) is one Canadian bank that offers very high yields on its GICs. The big bank GICs are generally only yielding 2.5-3%, but EQB has one that can pay you nearly 5%. The Equitable Bank GIC offers 4.6% if you hold it for one year or 4.7% if you hold it for five years. Five years is a pretty long commitment — you wouldn't want to be stuck holding a bond if inflation goes even higher — but you only lose 0.1% by going with the one-year GIC.

If the Bank of Canada succeeds in getting inflation down to 2% over the next year, then you may get a return that beats the inflation rate.

Why this could be the moneymaking opportunity of the decade

You might balk at the idea of a GIC being the moneymaking opportunity of the decade, but don't start laughing just yet. Investments offer the promise of return, but they also come with serious risk. Sometimes, risk materialize, and investors suffer permanent losses of capital — just ask anyone who owned Enron in the late 1990s.

4.6% is actually a pretty high return for a low-risk investment. Currently, it's a little behind the inflation rate, but inflation has been calming down significantly in recent months. If the Bank of Canada gets inflation down to 2%, then you will realize a positive real return on your Equitable Bank GIC.

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andrewbutton