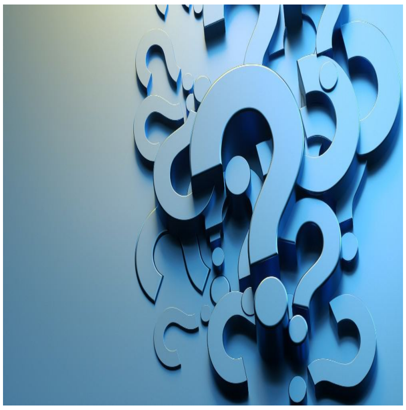

Better Inflation Buy: Enbridge Stock or a GIC?

Description

Enbridge (TSX:ENB) stock is a low-risk investment among stocks, but compared to GICs, it's still riskier. GICs, short for Guaranteed Investment Certificates, are a good investment for low-risk investors because you get principal guarantee and the promised interest. If your goal is to combat inflation, both are good considerations.

Is Enbridge stock or a GIC a better inflation buy today?

How does Enbridge stock's dividend fare against inflation?

Enbridge consists of energy infrastructure assets that are essential for the smooth running of the North American economy. It transports about 20% of the natural gas consumed in the United States and transports and exports approximately 30% of the crude oil in North America.

Its quality and stable cash flow is diversified and is 95% sourced from investment-grade customers. Additionally, Enbridge boasts that 80% of its EBITDA (earnings before interests, taxes, depreciation, and amortization) has inflation protection.

Importantly, the dividend stock has beat inflation for decades. Its 20-year dividend-growth rate is 11.9%. Even though its recent dividend-growth rate has slowed to just north of 3%, the combination of its recent dividend yield of 6.3% and a 3% growth rate would be more than sufficient to beat the long-term rate of inflation of about 2%.

GIC rates are pretty good today

In recent years up until last year, interest rates were too low and made GICs unattractive. However, if you looked at them again now, you'd be delighted to find much better yields. As interest rates have gone up to combat high inflation, the best GIC rates have climbed to north of 5% now. You'll need to lock in your money for at least a year to get that rate.

Statistics Canada reported that the recent inflation rate in October was 6.9%. This is higher than the GIC rate available today. However, in time, the inflation rate will be brought back down to our central bank's long-term target of about 2%.

You could save tonnes of taxes with dividend income

Let's not forget that your GIC interest income would be 100% taxed at your marginal tax rate, whereas your juicy dividend from Enbridge stock would be more favourably taxed due to the dividend tax credit if the investments were held in a non-registered account.

If you live in Ontario and earned taxable income of $150,001 this year, upon earning $10,000 in interest income, you'd pay $4,497 in income taxes and take home only $5,503. However, if you earned $10,000 in Enbridge dividends — essentially, eligible dividends — you'd only pay about $2,753 in income taxes and take home almost $7,247 in after-tax income!

The Foolish investor takeaway

Inflation is high now, but the Bank of Canada will return it to about 2% in time. In comparison, Enbridge stock is still a better inflation buy than GICs. Unless you need your money back guaranteed in the short term, Enbridge stock is still a better investment. However, understand that stocks are inherently riskier than GICs.

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