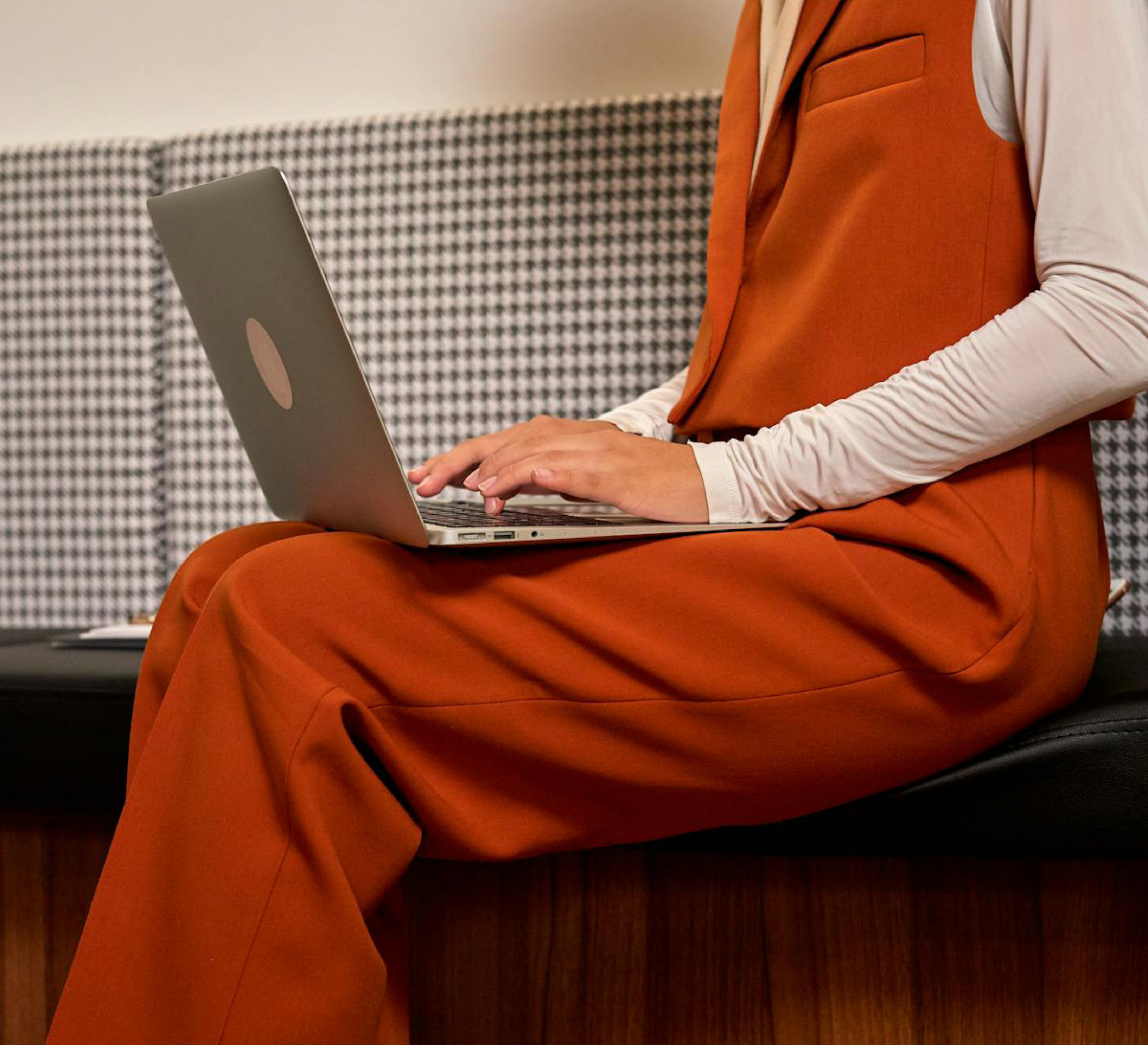
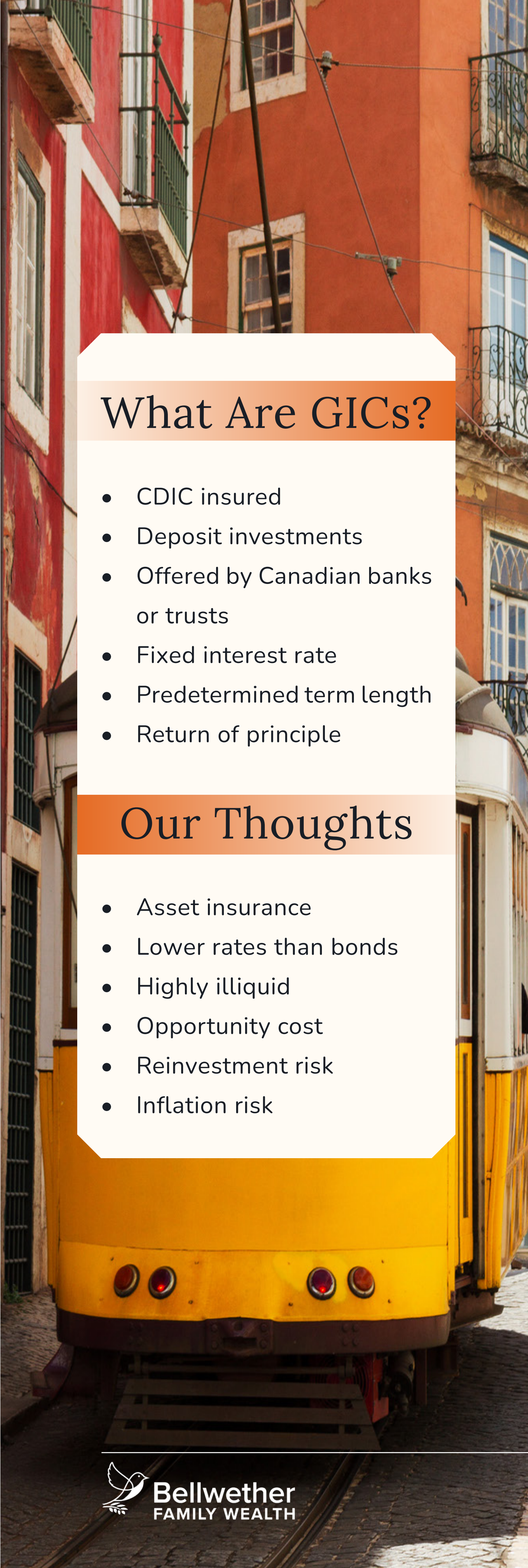


Guaranteed Investment Certificates (GICs)

Bellwether
FAMILY WEALTH



What Are GICs?

- CDIC insured
- Deposit investments
- Offered by Canadian banks or trusts
- Fixed interest rate
- Predetermined term length
- Return of principle

Our Thoughts

- Asset insurance
- Lower rates than bonds
- Highly illiquid
- Opportunity cost
- Reinvestment risk
- Inflation risk

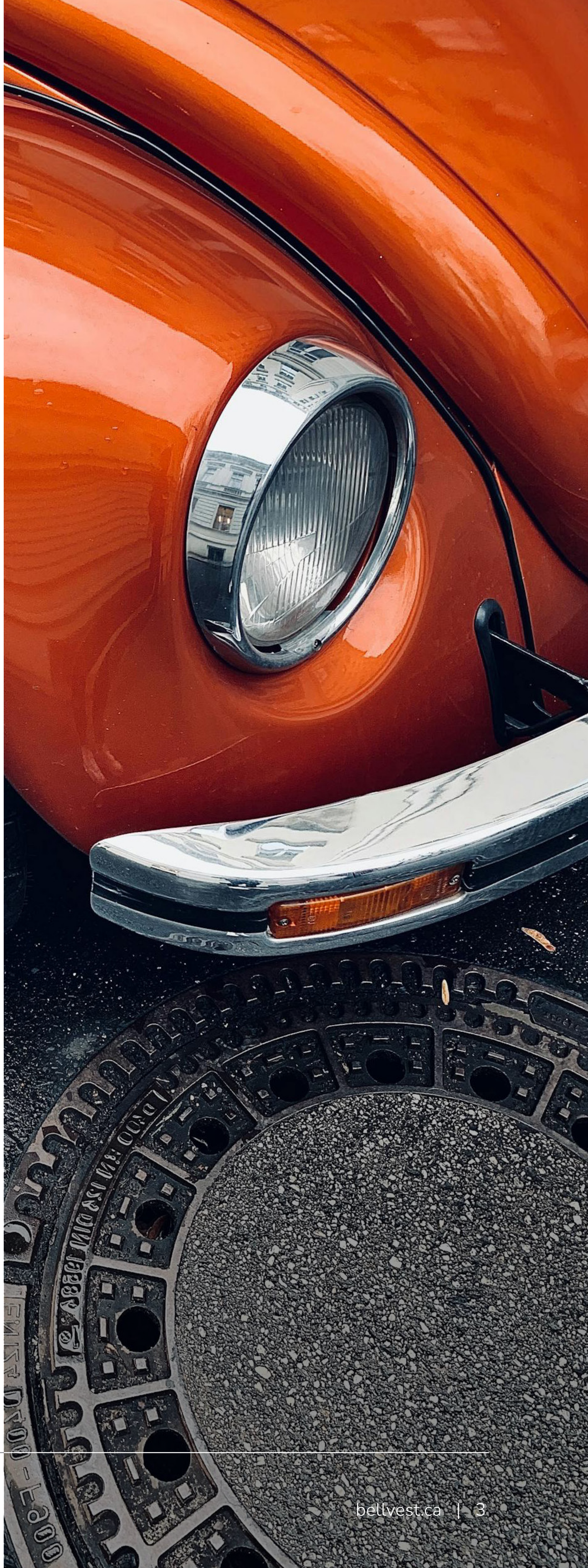
The Basics

You should always question an investment product that someone guarantees to be profitable. For equities, it's outright misleading, and even the greatest corporate bonds can default on their obligations.

But for GICs, it's right in the name—so what downsides do we see with the underlying asset itself, and what's brought about the sudden increase in investor interest?

In this document, we will explore what exactly GICs are, their perceived benefits, and why they may not live up to expectations.

Returns Since 2009



One-year Guaranteed Investment Certificates

1.19%

Five-year Guaranteed Investment Certificates

1.99%

Bellwether Fixed Income Composite †

5.69%

Source(s): Bank of Canada. All returns are annualized. To annualize the mean interest return, Bank of Canada 1- and 5-year GIC data points were summed and averaged for each calendar year. Assumes all interest and principal are reinvested on an annual basis with no tax or transaction fees to simulate compounding effects.

† As at December 29, 2023. Bellwether Fixed Income Composite, which is comprised of 20% Preferred Shares/35% BIM Fixed Income Fund/45% BIM Alternative Income Fund.

Asset Insurance

The Canada Deposit Insurance Corporation (CDIC) automatically insures your eligible deposits held at member institutions throughout the country. While the coverage of up to $100,000 may be appealing, the federal government fully guarantees Government of Canada bonds.

Relative Returns

When interest rates climb, bond prices are punished, while GICs aren't impacted. It isn't meaningful, but it is steady.

But this reliability is, ultimately, the greatest shortcoming for GICs. When interest rates begin to fall, bond prices appreciate, allowing investors to turn a tidy profit on top of the coupon payments they've already received. Beyond the returns themselves, other fixed income options may be a more tax-efficient investment vehicle than GICs.

Liquidity Concerns

The price of "safer" investments isn't exactly cheap. In most cases, your capital is inaccessible for months or years unless you're willing to pay steep penalties. The first concern is obvious: what happens if there's an emergency and you're in need? Illiquidity is even more damaging from a portfolio management perspective.

Opportunity Costs

An asset's liquidity is more than an opportunity for capital gains; it's a chance for investors to utilize their greatest tool—portfolio optimization. The flexibility of selling a security at any point allows you to seize opportunities as they arise, profiting from the success of one investment and compounding it further by re-investing. GIC holders, however, are forced to watch opportunities pass them by every day.

Reinvestment Risks

There's no way to tell what awaits five years from today. By the time your term matures, the market could be spiraling and devoid of opportunities, leaving you with a depreciating asset—cash. Even if you plan on reinvesting in GICs, the rates might be significantly lower than what you were hoping for.

Inflation Risks

Capital erosion is a constant threat for GIC holders. If the rate of inflation outpaces your investment's fixed interest rate, your purchasing power is being undermined, and worse yet, there's very little you can do about it.

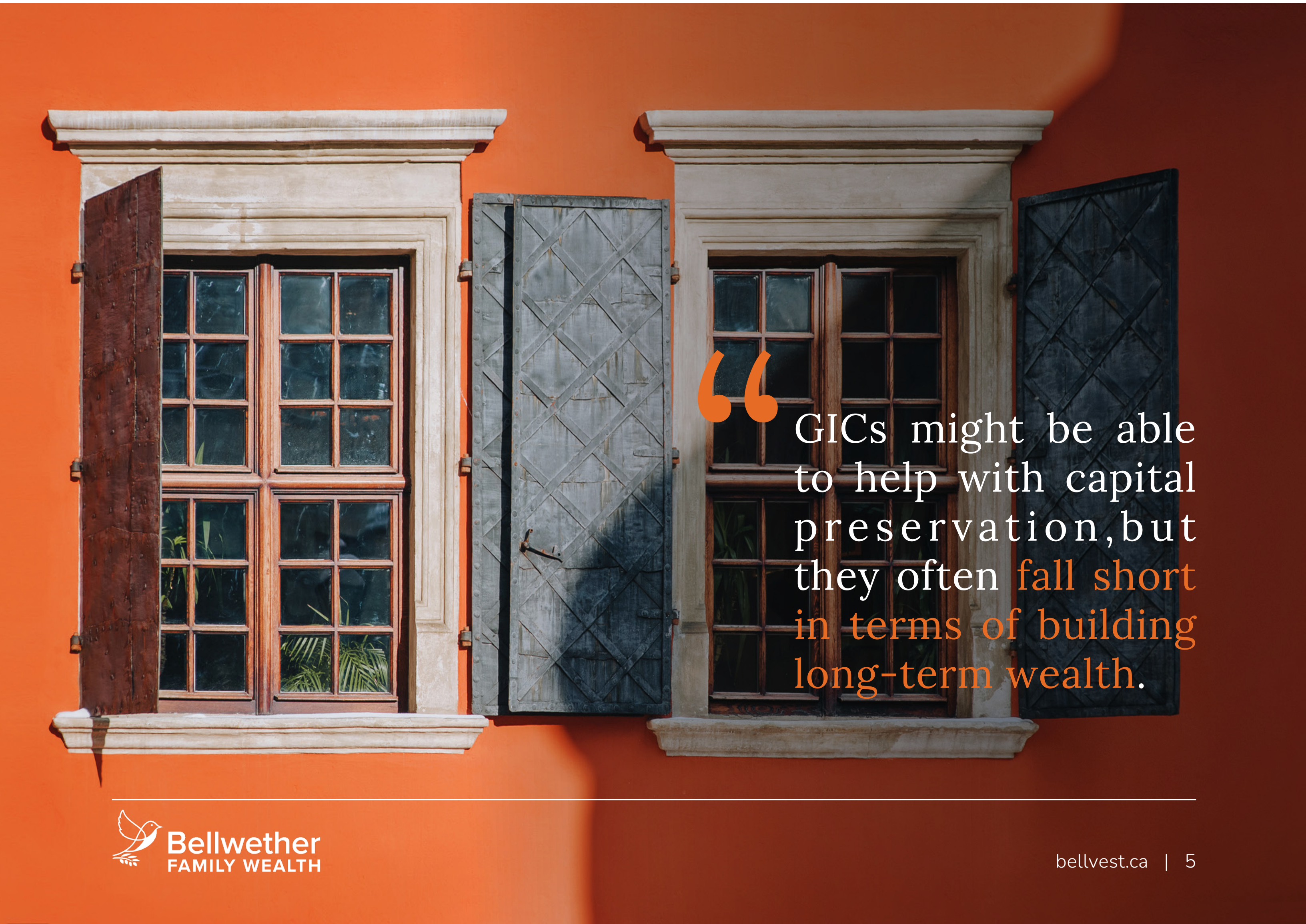
Closing Thoughts

For all we've said, GICs aren't inherently bad—**we just believe there may be better options out there.**

A thoroughly diversified portfolio can better withstand volatility. Equally important, however, is tailoring one that meets your evolving needs—some take on more risk for growth potential, whereas others look to supplement their retirement income.

Low-risk investments that generate modest returns have their place, but a proven strategy is often the best form of safety. Trying to eliminate all risk from your portfolio is a noble task, but it also reduces the potential for higher returns.

Markets stumble once in awhile; it's just their nature. Fleeing to GICs during periods of market weakness may be tempting, but it could be counterproductive to your financial success if you overcorrect.



> "GICs might be able to help with capital preservation, but they often fall short in terms of building long-term wealth.

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