guaranteed investment certificates (GICs)

what they are and how they work

- Financial institution pays a fixed amount of interest for a fixed amount of money for a fixed amount of time, usually for longer than a year
- Most institutions require a larger minimum deposit than for a term deposit

benefits

- No risk
- Simple
- No fees
- Offers higher interest rates than a savings account and term deposit

trade-offs

- Money "locked in" for fixed and longer term, compared to term deposit
- Withdrawal penalty if cashed before expiration date (penalty can be higher than the interest earned)

Note: GICs mature if the holder dies before the maturity date.

what they are and how they work

- Financial institution pays a fixed amount of interest for a fixed amount of money for a fixed amount of time, usually less than one year.

benefits

- No risk
- Simple
- No fees
- Offers higher interest rates than savings accounts and lower than a GIC

trade-offs

- Money "locked in" for fixed term, compared to savings account
- Withdrawal penalty if cashed before end of fixed term (penalty may be higher than interest earned)

stocks

what they are

- Stock represents ownership of a corporation. Stockholders own a share of the company and are entitled to a share of the profits as well as a vote in how the company is run.

how earnings are made

- Company profits may be divided among shareholders in the form of dividends. Dividends are usually paid quarterly.
- Larger profits can be made through an increase in the value of the stock on the open market.

advantages

- If the market value goes up, the gain can be considerable.
- Money is easily accessible.

disadvantages

- If market value goes down, the loss can be considerable.
- Selecting and managing stock often requires study and the help of a good brokerage firm.

mutual funds

what they are

- Professionally managed portfolios made up of stocks, bonds, and other investments.

how they work

- Individuals buy shares, and fund uses money to purchase stocks, bonds, and other investments.
- Profits returned to shareholders monthly, quarterly, or semi-annually in the form of dividends.

advantages

- Allows small investors to take advantage of professional account management and diversification normally only available to large investors.

types of mutual funds

Balanced Fund includes a broad mix of stocks and bonds.

Global Bond Fund has corporate bonds of companies from around the world.

Global Stock Fund has stocks from companies in many parts of the world.

Growth Fund emphasizes companies that are expected to increase in value; also has higher risk. Portfolios can vary widely in stock selection.

Dividend Fund features stock and bonds with common or preferred shares that generate dividends.

Specialized Fund invests in stocks of companies in a specific industry (such as technology, health care, banking, energy, natural resources).

types of mutual funds (continued)

Money Market Fund features short term instruments (less than one year) and T-bills.

Bond Fund features government and corporate bonds.

real estate

ways to invest

- Buy a house, live in it, and sell it later at a profit.
- Buy income property (such as an apartment house or a commercial building) and rent it.
- Buy land and hold it until it rises in value.

advantages

- Excellent protection against inflation.

disadvantages

- Can be difficult to convert into cash.
- A specialized type of investment requiring study and knowledge of business.

capital gains: profits from the sale of a capital asset such as stocks, bonds, or real estate, are also tax deferred; you do not have to pay the tax on these profits until the asset is sold.

bonds

what they are

- A bond is an "IOU," certifying that you loaned money to a government or corporation and outlining the terms of repayment.

how they work

- Buyer may purchase a bond at a discount. The bond has a fixed interest rate for a fixed period of time. When the time is up, the bond is said to have "matured" and the buyer may redeem the bond for the full face value.

types

Canada Savings Bonds

- The safest investment you can make, backed by the Government of Canada.

Government

- Issued by federal, provincial, or municipal governments to raise money for government projects.

Corporate

- Sold by private companies to raise money.
- If company goes bankrupt, bondholders have first claim to assets, before stockholders.

registered retirement savings plans (RRSPs)

what they are and how they work

- Plans that help individuals set aside money to be used after they retire.
- Income tax not immediately due on money put into a retirement account, or on the interest it makes.
- Income tax paid when money is withdrawn.
- Penalty charges apply if money is withdrawn before the maturity date, except under certain circumstances.
- Income after retirement is usually lower, so tax rate is lower.

RRSP VALUE AT END OF YEAR
($13,500 ANNUAL INVESTMENT AT 7% COMPOUNDED ANNUALLY)
DATE OF ANNUAL INVESTMENT

YEAR	JANUARY 2 OF TAX YEAR	EVERY MONTH ($1,125/MO.)	MARCH 1 OF NEXT YEAR
7	$125,007.33	$121,259.06	$103,102.11
14	325,741.80	315,974.62	290,566.79
21	648,077.48	628,645.25	591,594.11
28	1,165,678.15	1,130,725.96	1,074,978.19
35	1,996,831.71	1,936,957.86	1,851,187.40

When to contribute The best time to contiribute to your RRSP is early in the tax year as opposed to waiting until the deadline the following year. You may also contribute on a monthly basis. The chart above indicates the differences in your investment values based on when you contribute. For example, if you contribute a total of $13,500 a year to your fund, the value after 7 years will be over $20,000 more if you make it in a lump sum contribution at the beginning of the year, instead of waiting until the deadline the following year, and almost $4,000 more than if you contribute monthly. After 35 years, the difference will be as much as $145,000!