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Accountant puts his money on, and in, bank GICs

By James Daw

Accountant David Trahair lost faith in investment funds and his financial adviser.

He reached what he calls his "puke point" at age 42, when he calculated his average annual return on nearly $82,000 contributed to his registered retirement savings plan from 1993 to 2004.

His balanced (stock and bond) mutual funds, individual stocks and (high-risk and costly) labour-sponsored investment funds returned an average of only 1.26 per cent a year.

Accounting for price inflation, he had lost buying power. Meanwhile, the S&P/TSX Composite Index had returned 6.97 per cent, including dividends.

"I wasn't 100 per cent in equities so I wouldn't expect to match that, but I was significantly invested in the stock market to the tune of more than 75 per cent," he writes in his latest financial advice book. "Shouldn't I have expected a return far above 1 per cent?"

With the help of a fellow accountant, he gradually shifted his money to the safety of GICs, government bonds and low-fee bond funds. By 2008, only 20 per cent of his holdings were exposed to the global meltdown of stock prices.

In his new book, *Enough Bull, How to Retire Well Without the Stock Market, Mutual Funds, or Even an Investment Advisor*, Trahair advises readers to go one step further.

His play-it-safe antidote to self-interested financial advice, high-cost investment funds and the volatility of stock markets is a retreat to the tried-and-true guaranteed investment certificate (GIC).

And not just any old GIC.

The ultimate in protection from personal financial disasters, Trahair argues, is a GIC from a bank, because it will be insured by the federal government.

GICs from credit unions may pay a higher interest rate, but Trahair points out that they're insured by mere provinces. (GICs from insurers are only insured by other Canadian insurers.)

Interest rates are particularly low these days, far below the average of 9 per cent between 1980 and 2000. There is also uncertainty about whether locking in a fixed rate for five years today will look smart in a couple of years if rates rise.

What's more important, Trahair argues, is that "interest rates cannot go below zero and the stock market most definitely can."

A weakness of Trahair's book is that he does not discuss the impact of having a narrow gap between interest paid and the average rise of consumer prices.

This gap is referred to as the real interest rate, and when that's low it increases dramatically the amount of saving required to provide a comfortable retirement.

Trahair also offers several tips for squeezing the most out of GICs that run counter to the advice you will get from professional wealth advisers and financial planners.

He urges young couples to aim at buying a home, and saving the downpayment inside a tax-free savings account instead of tapping a registered retirement savings plan under the Home Buyers' Plan.

Then, as in earlier books, he advises getting out of debt – your mortgage included – as quickly as possible before starting RRSPs.

Avoiding debt charges will certainly pay a higher return than you can earn on GICs. A rise in the value of a home is not taxed (if you don't count property taxes). Trahair's strategy is to free up a major share of income and generate tax refunds to build up RRSPs in a hurry once you start. Then, he says, put RRSPs ahead of investing in other real estate or your company to avoid the risk of financial loss.

He offers tax-saving tips for making the most of income from retirement funds and the Canada Pension Plan. He urges applying early for the CPP, then returning to work or business without having to contribute to the CPP.

(Under changes adopted since Trahair wrote his newly published book, it will not be necessary as of 2012 for those under 65 to cease work before applying for CPP. But it will be mandatory to contribute to the CPP up to 65 if you continue working, and contributing after 65 will be permitted it you want to increase your pension.

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