Halton Hills WEEKEND

Money Matters.....

The lowdown on fixed-income investing

By STEVE ROBINSON

With the RRSP season upon us most Canadians are looking for the best place to invest their RRSP.

Should an investor buy a GIC or a government bond? The simple answer; for smaller sums on money a GIC makes sense since they are avialable at all banks and trust companies and can be purchased in small amounts. For larger sums of money ($10,000+) the bond is the appropriate choice. Government bonds carry an unlimited government guarantee,usually pay a higher yield than your banks best GIC rate for the same term, and can be sold to maturity.

Under the current economic environment, interest rates are likely to fall over the next year or two. If you agree that rates will fall, then this is a good reason to lock these high rates in. But what is better, a bond or a GIC? If rates fall, your bonds will rise in value to reflect the then current yield — your GIC won't. The same is true of bond funds, they rise in value when rates fall, and fall in value when rates rise (like last year). If rates rise the bond may decline in value over the short term, however it will still give you a higher return than the GIC will be worth more when it matures. The advantage with a bond is that you can capture the extra gain made by selling it when rates have fallen and sit back as rates rise again.

Bonds are regarded as "Fixed Income" investments because they pay a fixed return on the bond. If interest rates rise or fall, the bond continues to pay the fixed rate, however, if interest rates change, the value of the bond will change to reflect changes in the level of interest rates. Think of bond prices and interest rates as two end of the same see-saw, when one rises the other falls. The price you receive when you sell a bond depends on the level of interest rates, but if you hold it to maturity $1,000 in face value will mature at $1,000 plus interest.

If you would like to find out how bonds can work for you, feel free to call me at 450-5946.

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