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Reliable returns with no risk

By Larry MacDonald
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Even before the market collapse in 2008, David Trahair preferred the certainty of GICs

David Trahair

Age: 50

Occupation: Chartered accountant, living in Toronto

Portfolio: Guaranteed investment certificates (57 per cent), provincial bonds (34 per cent), S&P/TSX 60 Index Fund (7 per cent) and a labour-sponsored investment fund (2 per cent)

David Trahair is a chartered accountant. However, many people know him better as the author of a book on personal finances, *Smoke and Mirrors: Financial Myths that Will Ruin Your Retirement Dreams.*

Now in its sixth edition, the financial bestseller argues that advisers are more like salespeople, and stocks are not necessarily the best asset to own over the long run. Another book is coming out soon: *Enough Bull: How to Retire Well Without the Stock Market, Mutual Funds or Even an Investment Advisor.*

The early investor

He started a registered retirement savings plan in 1991 and invested every year in mutual funds, first on his own, then with a financial adviser. After 12 years, he calculated his personal rate of return. “It was … just over 1 per cent per year if you took out the labour-sponsored investment fund tax credits,” Mr. Trahair reports.

The conversion

A new financial adviser was found – a fellow accountant. The adviser did an analysis of the investment accounts held by Mr. Trahair and his wife and found that more than 80 per cent had been allotted to high-risk assets.

Getting their money out of equity mutual funds was a slow process. Most had deferred sales charges (DSC) and it took years for the fees to come down to the level where the couple could extricate themselves without too great a penalty. They did, however, manage to shift 90 per cent of their assets to guaranteed investment certificates and bonds before the stock market crash of 2008.

Investment approach

"I like things I can understand and don't like seeing negative returns," he explains. "Basically, GICs are my favourite. Even at today's low interest rates, you can still get 3.25 per cent on a 5-year GIC at ING Direct."

This return, he says, is not far off the historical return for stocks after adjusting for management fees and other factors. And it is risk-free, unlike stocks.

Best move

Finding a better financial adviser.

Worse move

"I got overexposed to labour-sponsored investment funds. The returns on these investments were paltry so I got rid of them as soon as the eight-year holding period expired [with one still to go]."

Advice

If you can't find a good adviser, simplify your investments and make them as risk-free as possible. Hold guaranteed investment certifications with maturities spread out over five years [laddered] inside a registered retirement savings plan. The GICs will never decline in value and are guaranteed by the Canada Deposit Insurance Corp. More advice on this and other topics are offered in Mr. Trahair's new book due out in this month.

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