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The book your bank doesn't want you to read

Risk-averse author says invest in GICs

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Presented by



 Chartered accountant and author David Trahair has published his second book slamming the financial industry. *Enough Bull: How to Retire Well without the Stock Market, Mutual Funds, or Even an Investment Advisor* (Wiley Canada), out in paperback this week, is billed as "the one book your bank really does not want you to read."

The risk-averse Trahair, 50, tells readers to forget the stock market, mutual funds and investment advisors and invest in nothing but Guaranteed Investment Certificates.

GICs are a staple deposit product at all Canadian banks, so I doubt the banks will shed tears if GIC refugees who flocked to mutual funds decide to retreat to GICs again. It's "proof everything goes in cycles," says Dan Richards, president of Strategic Imperatives.

"Some of the same people who left GICs to go to mutual funds in the early '90s are now being counselled to go back to GICs."

It is not surprising that arguments like Trahair's are being made after the worst 10-year returns in the stock market since 1925, Richards says. "If investors can hit their retirement goals with a return of 4% [the most a five-year GIC pays], while saving enough without crimping their lifestyle, and retiring when and how they want to, then it makes all the sense in the world to do this."

That's a big "if." Such low returns mean saving more and working longer.

It may be the difference between spending three weeks or three months a year in Florida for retirement. "Investors have to start making trade-offs," Richards says. "How much is the peace of mind of a risk-free return worth?"

There's much good advice in the book, especially that telling investors to forget the stock market until all credit card and mortgage debt is eliminated.

Trahair's general advice on avoiding personal financial disasters, including doing due diligence on financial advisors to ensure you aren't dealing with the next Bernie Madoff, is also sound.

But where many part company with the author is his advice to put the bulk of a portfolio in one asset class.

"Neither 100% stocks nor 100% bonds stand up historically over any long period," says Tactical Capital president Michael Nairne.

Retirees with all-stock portfolios may not be able to withstand a protracted bear market, but an all-bond portfolio will be devastated by prolonged inflation.

Trahair does not mention inflation-linked bonds in his story.

U. S. intermediate bond returns going back to 1926 returned 2.26% a year on average. Nairne says that is comparable with GIC returns. Few can live on those returns.

There may be a case for 100% GICs or bonds in tax-sheltered accounts, but investors are unlikely to reap the solid GIC returns of the past, says mutual fund analyst Dan Hallett.

However, GICs are taxed harshly in non-registered accounts. Conservative high-yielding Canadian stocks generate higher after-tax returns than bank GICs.

"The notion you should throw in the towel on the stock market is nonsense," Hallett says.

Markham-based advisor Robert Smith says the all-GIC strategy "doesn't hold water for anyone but the utmost risk-averse," and is unlikely to do well in the current environment of low interest rates and potentially high inflation.

However, Graham Cook, president of Nanaimo, B. C.-based Composite Finance Inc., is more sympathetic.

"Using stocks to finance your retirement is much riskier than you have been led to believe, but you don't have to take stock-market risk with your savings," he says.

"You can beat inflation by 2% without any stock risk by using real-return bonds, Cook says. He agrees a five-year ladder of GICs may do well, especially if you find better rates through a deposit broker.

John De Goey, senior advisor with Burgeonvest Securities, disagrees with Trahair but concocts a scenario where it may make sense: For a highly risk-averse investor, over 70, who has saved enough to provide a suitable lifestyle and who would have been half invested in income products anyway.

In such a case, \$1-million of capital generating 5% interest (if possible) provides \$50,000 a year up to death at age 90.

We give the last word to Nairne: "The hardest thing in this business is meeting a highly risk-averse person who doesn't want to face the fact they'll have to live a really constrained lifestyle." - Jonathan Chevreau blogs at www.financialpost.com.

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