

Maximize GIC returns with a laddering strategy

The longer you invest, the greater your potential for higher returns

This is a key principle with investing and also holds true for GICs. Usually, GICs with longer terms to maturity pay a higher interest rate. But when considering your options, keep in mind that choosing a longer term locks your money in at a fixed rate. And should rates rise, you may miss an opportunity to earn higher interest.

Fortunately, a proven strategy known as laddering can reduce the influence of interest rate changes and maximize your GIC returns. Laddering involves staggering the maturity dates of your GICs so not all of your money is locked in for the same length of time.

How does laddering work?

- › Your money is initially divided into equal portions and each portion is invested in a combination of GICs with maturity dates ranging from one to five years.
- › Each year, one of the GICs matures and the funds are used to purchase a new five-year GIC to continue the laddering strategy. This is one of the key benefits of laddering — you have access to some of your money every year if required.
- › If interest rates rise, you can take advantage of the higher rate by reinvesting the money from the GIC that matured at this time. On the other hand, if rates fall, a large portion of your portfolio still benefits from the original (higher) rates that applied when you made the initial investment.

The diagram below illustrates how \$50,000 would be invested using a laddered GIC strategy.

Laddering at work

Initial investment	Today	Year 1	Year 2	Year 3	Year 4	Year 5
\$10,000	Purchase 1-year GIC	Purchase NEW 5-year GIC				
\$10,000	Purchase 2-year GIC		Purchase NEW 5-year GIC			
\$10,000	Purchase 3-year GIC			Purchase NEW 5-year GIC		
\$10,000	Purchase 4-year GIC				Purchase NEW 5-year GIC	
\$10,000	Purchase 5-year GIC					Purchase NEW 5-year GIC
\$50,000						

Chart is for illustrative purposes only.

Key benefits of laddering

- › **Maximize returns** — Over time, a laddering approach allows you to potentially earn more than investing only in 1-year GICs.
- › **Reduce risk** — Interest rates move up and down. Laddering your GICs makes changes in the level of interest rates less of a factor for your GIC portfolio.
- › **Convenient access** — Laddering allows you to access a portion of your GIC portfolio every year.

An easy solution

The Five-in-One GIC® is a great way to start a laddering approach with your non-registered GIC investments. Usually, shorter-term GICs offer lower rates than longer-term GICs, but with the Five-in-One GIC, you receive the same attractive rate for all five terms at the time of your initial investment. Also, you enjoy the flexibility to choose whether you want interest paid monthly, semi-annually, annually or at maturity (interest is compounded annually).

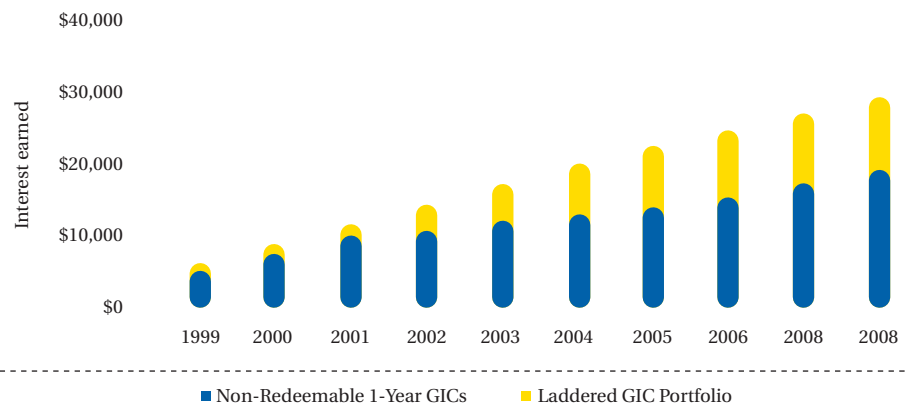
Who would benefit from a laddered GIC strategy?

- › **Individuals who need stable cash flow from a secure asset.** In the long run, laddering can help to maximize interest earned from GICs while minimizing the effect of interest rate fluctuations.
- › **Investors who want to maximize their potential GIC returns without locking in all of their money for a long term.** As shown below, a laddered approach can enhance the interest earned over the long term.

GIC laddering in action

Consider two investors who each made a \$50,000 investment on January 1, 1998. One investor chose a non-redeemable one-year GIC, believing that every year they would be able to obtain a higher rate. The second investor chose a laddered portfolio of non-redeemable GICs. By January 1, 2008, the laddered GIC strategy earned \$10,116 more in interest income than the one-year GICs bought every year. (See chart below.)

Total interest earned over 10 years on a \$50,000 investment. Laddered GIC portfolio vs. 1-year GICs



This example uses actual RBC posted GIC rates for the years from January 1, 1999, to January 1, 2008, assuming interest is compounded annually.

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For more information or to invest in GICs, visit your nearest RBC Royal Bank branch, call 1-800 ROYAL® 1-1 or visit our website at www.rbcroyalbank.com/gic.



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