



The laddering approach Take the guesswork out of your fixed-income portfolio

When building the fixed-income or Guaranteed Interest Contract (GIC) portion of your portfolio, one of the most difficult decisions is deciding on which length of term to select. By selecting a long-term GIC, you will typically earn a higher rate than a short-term GIC, but your investment is locked-in for the entire term. So, if interest rates rise during that term, you'll miss the chance to take advantage of better rates.

Alternatively, by selecting short-term GICs, you sacrifice higher long-term rates in hope that short-term rates are on their way up. Both of these strategies entail a certain amount of risk if the future does not unfold as predicted.

Instead of trying to guess where interest rates are heading, why not reduce your risk and level out your guaranteed returns by laddering your fixed-income portfolio? The laddering strategy allows GIC investors to build a fixed-income portfolio with a diversified maturity structure. By equally dividing their initial investment over multiple terms (see dark green bars in Figure 1), investors create a rolling maturity cycle so that part of their investment comes due each year. This allows for an annual re-investment of that portion for a longer term (see light green bars in figure 1), thereby reducing interest rate risk – if rates are falling, only one portion of your investment immediately affected; if rates are rising, you'll be able to capture that increase as you reinvest. For this reason, the GIC laddering strategy has been a popular approach with investors for decades.



This strategy confers a number of benefits:

- reduces risk – diversified maturities reduces the impact of interest rate fluctuations
- flexibility – still able to take advantage of attractive long-term interest rates
- disciplined - structured approach eliminates ‘chasing interest rates’ or ‘waiting out low rates’
- liquidity – with part maturing each year, you can access your money without penalty

A BETTER WAY - THE MANULIFE INVESTMENTS LADDERED GIC ACCOUNT

One of the only drawbacks in setting up a GIC ladder is the need to invest in shorter term GICs initially at lower

rates. Manulife Investments has created a special type of GIC account that gives an investor one initial rate on all the terms invested. This way, the laddered portfolio earns a level rate of return right from the beginning.

Consider two investors – Sean and Monica (Figures 2 and 3). Both have concerns about preserving their capital, so both have dedicated a portion of their portfolio to GICs. Each began with \$50,000, and each built a 5-year ladder – Sean employing a typical strategy, and Monica using the Manulife Investments Laddered GIC Account. In the first year, Sean’s ladder was earning an average of 3.43%, and by the end of five years,

TYPICAL 5-YEAR LADDERING STRATEGY

Initial Investment	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
20%	1 Yr. Term	5 Yr. Term				
20%	2 Yr. Term		5 Yr. Term			
20%	3 Yr. Term			5 Yr. Term		
20%	4 Yr. Term				5 Yr. Term	
20%	5 Yr. Term					5 Yr. Term

Figure 1





SEAN - 5-YEAR LADDER USING BASIC GIC ACCOUNTS

Initial Investment	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
\$ 10,000	1 Yr. @ 2.25% ¹	5 Yr. @ 4.40%				
\$ 10,000	2 Yr. @ 2.90%		5 Yr. @ 4.40%			
\$ 10,000	3 Yr. @ 3.55%			5 Yr. @ 4.40%		
\$ 10,000	4 Yr. @ 4.05%				5 Yr. @ 4.40%	
\$ 10,000	5 Yr. @ 4.40%					5 Yr. @ 4.40%

Figure 2

Portfolio value after 5 years : \$60,936

MONICA - MANULIFE INVESTMENTS GIC LADDERED ACCOUNT²

Initial Investment	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
\$ 10,000	1 Yr. @ 3.90%	5 Yr. @ 4.40%				
\$ 10,000	2 Yr. @ 3.90%		5 Yr. @ 4.40%			
\$ 10,000	3 Yr. @ 3.90%			5 Yr. @ 4.40%		
\$ 10,000	4 Yr. @ 3.90%				5 Yr. @ 4.40%	
\$ 10,000	5 Yr. @ 3.90%					5 Yr. @ 4.40%

Figure 3

Portfolio value after 5 years : \$ 61,126

Sean's investment has earned him an overall total return of 21.87%.

By taking a different approach, Monica has generated a better return and eliminated the need to invest in lower rate investments. In the first year alone, Monica's average rate of 3.90% has outperformed Sean's, allowing her to reinvest more, earlier in the process. This gets her money working for her faster,

contributing to her higher five-year return. In fact, by the end of five years, Monica's ladder has generated 0.38% more return than Sean's.

¹ Interest rates shown are for illustrative purposes only but were typical of Manulife Financial GIC interest rates from October 25, 2002. A rate of 4.40% has been illustrated for all 5-year reinvestment terms but this rate will vary from year to year.

² Manulife Financial is the issuer of the Manulife Investments Guaranteed Interest Contract (GIC) which offers the Laddered GIC investment option. The illustration assumes that rates are constant over the 5 year period. The Manulife average rate is generally higher than the industry average rate. Results will vary depending on actual interest rates.



BUILDING PORTFOLIO SECURITY GICS - STILL PART OF A WELL- BALANCED PORTFOLIO

66% of affluent Canadians believe that diversification is important, for reasons including achieving balance in their investments, and increasing security and minimizing risk in their portfolios. In fact, 17% of those who believe diversification is important cited current market instability as their reasoning for diversifying their portfolios. An investment portfolio that is diversified by asset class and product type can be an important factor in reducing risk and leveling out long-term returns over time. Guaranteed investments such as GICs are still an excellent way to add security and stability to any investment portfolio. By ensuring that part of your portfolio is continually growing, you can create a solid foundation that will provide more consistent returns and reduce your overall investment risk.

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