

Investing 101 - Laddering: How Can You Build Your Investments?



Investing: [verb] confusing process involving magic and midwifery, in which your money is swept away today with the hopes of producing more money in the future. See *related terms*: dreams, confusion, fees, retirement, and future.

What you'll learn today:

- conservative investment strategies
- how to maximize your investments by laddering GICs
- how to financially empower yourself

Testing Your Investing Limits

Do you prefer zip lines or aero cars? Eco-adventure trips to snake territory or family trips to Florida? Practical footwear or fancy shoes? Spending money or saving it?

Some people are naturally more adventurous and daring while others are more prudent and cautious. A good financial advisor will help you [assess where you fall in the investment spectrum](#).

To help you understand, picture your investment future like a childhood bedroom. In that bedroom

are two toddlers approaching a bunk bed. Toddler One eyes the ladder to the top bunk like the greatest adventure of her two years. Toddler Two shakes his head in disbelief as the Toddler One climbs the ladder -- she nearly falls six times, but celebrates like a world-class explorer when she reaches the summit. The glorious top bunk is a mere ladder climb away, but Toddler Two is happy to enjoy the view from the floor. When the babysitter comes into the room, Toddler Two is coaxed to slowly climb the ladder under her watchful eye and steadying hand.

Now imagine our two toddlers grow up. They both earn a respectable income and plan to invest part of that income to fund their goals (e.g., vacation, college, mortgage, wedding, retirement). Toddler One, our intrepid explorer may be more comfortable with pursuing a stock portfolio or more aggressive investment strategy with greater risk involved. Toddler Two, our cautious observer, may be more at home with a conservative investment strategy that involves government-secured funds: [GICs](#).

Well, lucky for that conservative toddler, I have a brand new ladder for her to explore – a ladder that is held steady by the Canadian government and leads to a stable investment potential through GICs. Even if your risk and goal assessment reveals you're more of an adventurous toddler, [GICs may have a place in your investment strategy](#).

GICs: The Socks and Sandals of the Investment World

Much like socks and sandals, GICs have your covered for multiple scenarios. They may not be glamorous, but GICs (Guaranteed Investment Certificates) are a cautious investor's dream.

How do they work? You provide a sum of money to your financial institution and they invest that money for a specific period of time. In exchange, they agree to pay you a specific interest rate for the duration of the investment.

GICs are a great, predictable investment. Whereas other investments may rise and fall daily as interest rates change, GICs are not priced daily. You can watch its value grow with each interest payment, without having to watch the price fall. When it matures, you will be assured of a return on your investment. [GICs are also insured by the DICO](#) (up to \$100,000).

This predictability makes GICs a great choice for those who are more cautious, as well as investors nearing or in retirement. But what happens if interest rates aren't great? Or what if they fall while I'm locked into a 5-year term? How do I avoid those risks? With GIC laddering! Get that fanny pack ready, it will be filled in no time, my socks and sandals wearing-friend.



Laddering: Building on a Secure Foundation

Laddering is an investment strategy that allows you to make the most out of your GIC investments.

GICs suffer from something called “interest rate risk”. This means that you don’t know when interest rates will rise or fall. If longer-term rates are higher, you may be tempted to invest all of your money in a 5-year GIC. But then you run the risk that rates might go up while you wait for your investment to mature and you’d be stuck earning less than you could have. Hold steady, oh cautious toddler, this is where the [magic of laddering](#) comes into play.

How does it work? Quite well! Really, laddering is a simple strategy that your financial advisor can help you set up. Imagine you have \$5000 to invest. Instead of putting it into a single GIC for 5 years, you could ladder the money. You could put \$1000 for 1 year, \$1,000 for 2 years, \$1,000 for 3 years, and so on.

Each year, at least one of your GICs will mature. This will allow you to either have access to money you may need at the time of maturity (e.g. if you have an unexpected home repair), or it will offer capital for further investments (e.g. back into your GIC ladder).

But I Don’t Wanna...

Still not sure if laddering is a good investment strategy for you? Have no fear, my cautious friend, as part of a balanced portfolio, it is nearly foolproof. In addition to having me (or your own advisor) to guide you, consider these:

Laddering Benefits

1. You don’t have to guess which term will give you the biggest return for your investment, because you’ll have some money invested in each term. For a cautious investor, that is like a parent coming into the room to help you climb the ladder to the top bunk.
2. Since you have some money maturing each year, you can take advantage of upward swings in interest rates. If rates go up, you can lock in for another year at a higher rate when your investment matures. Also, if interest rates fall only some of your money will be exposed to the lower rate (e.g., only \$1000 of your \$5000 made a lower interest rate, and

you have a chance to reinvest at a higher interest rate again). For either aggressive or cautious investors, that is like having a bed of pillows spread at the base of the bunk bed ladder while your parent watches. You're safe whether you climb or fall.

Here's a handy video I made to help you understand the magic of GIC laddering.

GIC laddering can be part of a balanced portfolio and a great strategy to help you maximize your conservative investments. You may already be using this strategy, but if you're not, you should ask your financial advisor about it, or come in and see me and [learn about our awesome GIC rates!](#) What do you have to lose? Do a risk and goal assessment to see if laddering can help you build your investments and reach your financial goals – no fanny pack or socks and sandals required!

If you have any questions, raise your hand, leave a comment, [contact us at PenFinancial](#), or come by for a visit. We're here to help you reach your goals in ways that fit your life.

[Investing 101](#) is a six-part series on investing. This series is aimed at empowering PenFinancial members with the knowledge and confidence they need to invest in their future.