

# The Dilemma

## GICs – Security vs. Reduced Growth

### Take a closer look –

Are GICs really making as much money for you as you think? While GICs offer the benefit of a secure investment, substantial long-term growth potential is limited. With tax implications and low interest rates, growth possibilities diminish even further.

This chart explains how the cumulative returns on a \$10,000 investment over a 20-year period really break down. At first, there is a head-spinning 400% rate of return. After taxes, that rate drops to 129% (assuming a tax rate of 48.6%). Factor in inflation, and the true rate of return is revealed: only 45.82%. In real dollar terms, that means a \$10,000 principal investment would – after 20 years – be worth only \$14,582.

#### Five-Year GIC Performances

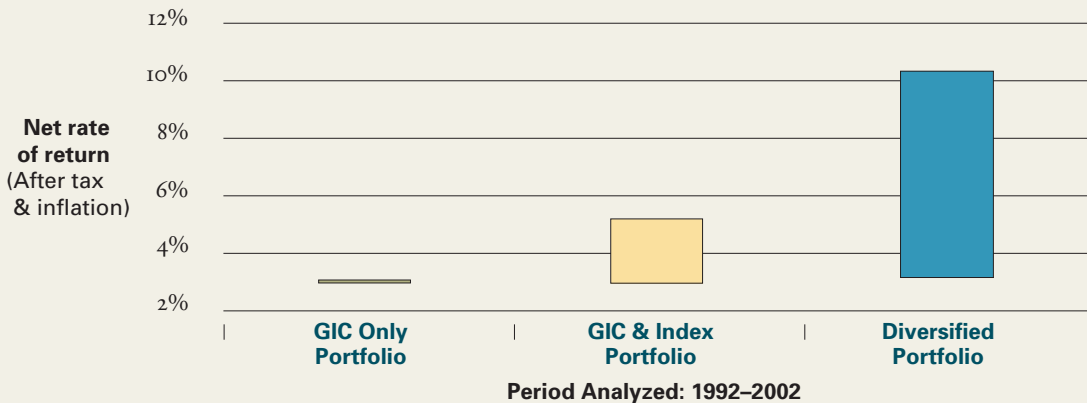
Sample Time Periods	Cumulative total five-year GIC rate of return	Net rate of return (after taxes)	Real net rate of return adjusted for inflation	Total growth of \$10,000 investment
<b>1 Year</b> June 2001–June 2002	4%	2%	0.88%	\$ 10,088
<b>3 Years</b> June 1999–June 2002	15%	7%	-0.10%	\$ 9,990
<b>5 Years</b> June 1997–June 2002	26%	12%	2.09%	\$ 10,209
<b>10 Years</b> June 1992–June 2002	75%	33%	14.06%	\$ 11,406
<b>20 Years</b> June 1982–June 2002	400%	129%	45.82%	\$ 14,582

Calculations are based on an income rate of 48.6%, a capital gains tax rate of 39.8%, and an inflation rate of 1.9% for a five-year GIC. GIC cumulative total rates of returns for the one - and three - year periods do not take into account redemption penalties. Sources: Bloomberg, Bank of Canada, Department of Monetary and Financial Analysis, and Ernst & Young Tax Calculators.

# The Solution

## Portfolio Diversification

Investment growth through safe investing. It can be done.



These charts compare three different investment portfolios using \$10,000 over a ten-year period. Note the dramatic differences in growth between each scenario over the ten-year period of 1992–2002.

\$10,000 Ten-Year Investment	The GIC Only Portfolio One Track Investing: Low Growth	The GIC & Index Portfolio The Split Investment: Improved Growth Potential	Diversified Portfolio A True Mix: Best Growth Potential
Portfolio composition	<ul style="list-style-type: none"> <li>□ 100% GICs</li> </ul>	<ul style="list-style-type: none"> <li>□ 41% GICs</li> <li>□ 42% 91-day T-Bill</li> <li>□ 17% Balanced Benchmark<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>□ 20% U.S. Large Cap<sup>2</sup></li> <li>□ 75% Canadian Bonds<sup>3</sup></li> <li>□ 5% Canadian Large Cap<sup>4</sup></li> </ul>
Potential returns*	3.11%	3.11% – 4.67%	3.12% – 10.15%
Potential growth	\$13,900	\$14,222 – \$16,902	\$14,237 – \$30,408

\*Assumptions: The range of potential rates of return is based on one standard deviation movement for the period analyzed.

## Get Franklin Templeton Investments working for you

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<sup>1</sup> Balanced Benchmark: 5% in S&P/TSX Index, 40% in S&P 500 TRI Cdn\$, 50% in Scotia Capital Market Universe Bond Index, 5% in 91-Day T-bill Index.

<sup>2</sup> U.S. Large Cap: S&P 500 Index

<sup>3</sup> Canadian Bonds: Scotia Capital Markets Universe Bond Index

<sup>4</sup> Canadian Large Caps: S&P/TSX Index.

Indices and GIC compounded average rates of return are calculated net of taxes and inflation (interest income taxed at 48.6%; capital gains at 39.8%; inflation at 1.9%) for the period of January 1992 to June 2002. 5-year GICs renewed at maturity. Sources: Bloomberg, Bank of Canada. Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments. Please read the Franklin Templeton Investments Prospectus before investing. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.