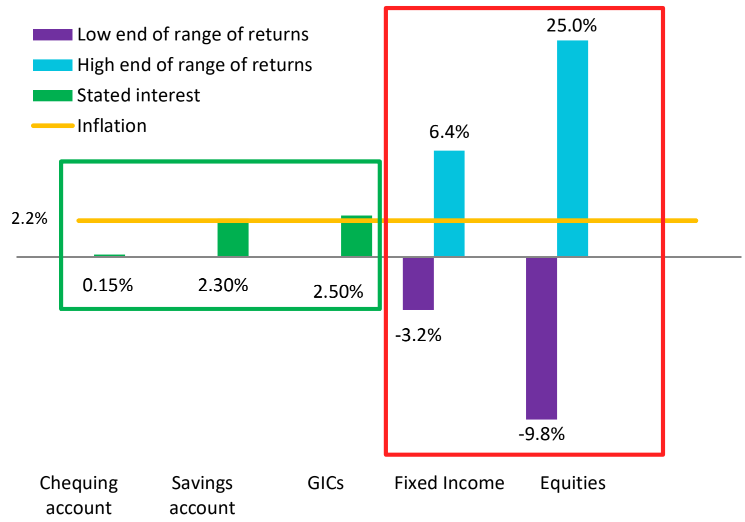
FinStart

Which investments beat inflation?

When you invest, you'll own various investment products. Some at better at beating inflation than others.

Can your money earn enough to beat inflation?



- At current rates, the highest-rate 1-year GICs would barely make up for inflation (the green bar is just above the yellow line) after you've paid income tax on the interest you earned.
- Fixed income and equity ETFs should handily beat current inflation - when everything goes well (blue columns).
- But you have to be prepared that if the year turns out to be a bad investment year, they may decline in value (purple columns)
  - To offset the risk of losses in a bad year, you need to be prepared to hold equities and fixed income in your portfolio for longer periods.

About this chart (updated July 2019)

- *For bank accounts and GICs we show the rates as currently offered by the banks.*
- *Future returns for bonds and stocks are impossible to tell for sure. We looked back 10 years and, using statistical methods, estimated a range of possible returns under normal market conditions (not in a financial crisis). Everything is net of fees but before income tax.*
- *Inflation over the last 12 months ranged from a high of 3% in July 2018 to a low 1.4% in January 2019.*

The most recent inflation reading in Canada: 2.4% (May 2019)

If you're interested, here's the number crunching that went into this chart. We used ETFs to represent bonds and stocks: XCB (corporate bonds) and XSP (US equities, hedged). For each ETF we found the average annual return over the last 10 years and its volatility. Both are shown on BlackRock's webpage - BlackRock is the provider of these ETFs. To calculate the high and low of the range, we added / subtracted two times volatility to the average return (this gives us a 95% confidence level associated with 2 standard deviations).

Glossary:

Basic investment products are stocks and bonds, mutual funds and ETFs, and GICs.

- When you buy stocks, you buy small portions of companies, like a chain of grocery stores or a car maker. This kind of investment is referred to as equity (or equities).
- When you buy bonds, you lend money to companies or governments, like the government of Canada, British Columbia, or City of Toronto. Bonds are referred to as fixed income.
- GICs (guaranteed investment certificates) are another example of fixed income: you lend money to the bank that issues the GIC, but the loan is insured by the government of Canada (this means that should the bank get into trouble and not be able to pay you back, the government will).
- You can buy stocks and bonds directly, but consider buying them through index ETFs (exchange-traded funds) or index mutual funds. It's less risky because these funds are large 'baskets' of individual securities. They are called index funds because they hold all securities in their market, for example US equities.