

Stress-free growth

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SAVVY savers are getting their cash together to catch unprecedented offers that come and go at a moment's notice as banks and credit unions hit the market with extraordinary deposit deals, then withdraw them quickly.

Less than two years ago, term deposits and savings accounts were viewed by many investors as a quaint relic of the past.

Shares and managed funds were viewed as the way to build wealth, with many investors neglecting to leave any significant portion of their money in cash deposits.

Now, term deposits are sold as an essential part of any responsibly managed super fund or savings plan – not just for security, but as a defensive hedge against future market shocks.

With the high relative interest rates now on offer, an investor can double their money in about 10 years, without the worry and stress that comes with market volatility.

“There has been huge growth in term deposits as an investment since the onset of the global financial crisis (in October 2008), then it tapered off a bit,” says Jon Lechte, director of term deposit brokers FIIG Securities.

“But in the last few months they have taken off again.

“We have handled almost \$4 billion worth of term deposit money recently.”

He said term deposits had gone through the roof since September.

“Many Australians used to have 100 per cent of their super or investments in equities. In fact many people leveraged their investments and had 120 to 150 per cent of their money in equities,” Lechte says.

“If we have learnt anything over

the last couple of years it is that that kind of strategy is not prudent.

“Recently I have heard some advisers recommending a good rule of thumb is to have about the same percentage of your money in cash as your current age. So if you are 20 years old, you would have not much in fixed interest, but if you are 80 you might have 80 per cent in guaranteed fixed interest returns.”

But getting the best possible rate for your cash depends on you being ready and able to pounce at almost a moment's notice.

Banks and credit unions are coming out with high-rate term deposit promotions but only offering them for a short period before they are withdrawn again from the market.

Westpac dropped its unsustainable 6.8 per cent rate for 12-month term deposits back to less than 6 per cent just after Christmas after offering it for just one month. ANZ raised its three-year term deposit rate on December 2 to 7 per cent, from 6 per cent, then dropped it back again on Christmas Eve.

“Banks are engaging in a hit and run campaign with term deposits,” says Andrew Murray, Director of Curve Securities, specialists in fixed interest investments.

“When they need cash fast they come out with a great rate, then withdraw it pretty quickly after they have brought in some money.”

The current average three-year term deposit rate dropped to 6.01 per cent in early January, down from 6.22 per cent in December according to financial comparison service RateCity.

Damian Smith, RateCity's CEO,

said term deposit rates remained at historically high levels.

“In January 2009 the average one-year term deposit rate was 42 basis points lower than the cash rate and the average three-year term deposit rate was 29 basis points higher than the cash rate,” he said.

“Now, the average one-year term deposit rate is 1.44 per cent higher than the cash rate and the average three-year term deposit rate is 2.26 per cent above the cash rate.

“The top five-year term deposit rate by Westpac is 8 per cent, which is more than double the cash rate.”

Lechte says the most popular term deposits are the shorter terms – three and six months.

However, he says, for people managing their own super funds or saving for retirement or a long-term goal, the best option is the longer terms.

“Westpac is currently offering 8 per cent for a term of five years,” Lechte says.

“People might ask why would you want to tie your money up for that long, but for a self-managed super fund or a person planning their retirement it is perfect.

“A return of about 8½ per cent per year for 10 years will double your original capital.

“You can get the same or better return from shares, but you might have to go to hell and back first.”

And that is the bottom line – cash deposits are paying high rates of returns, with a government backed guarantee – and with none of the worry and stress that comes with market volatility.