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Banks play hit and run with savers

Thursday, January 14th, 2010 at 8:36 am

By Jason Bryce

People looking to get the best rates on term deposits need to be able to move quickly to take advantage of the extraordinary deals on offer from banks and credit unions.

With the high relative interest rates now on offer, an investor can double their money in about ten 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 John Lechte, director of term deposit brokers, F.I.I.G. "But in the last few months they have taken off again. We have taken handled almost four billion dollars worth of term deposit money recently."

But getting the best possible rate for you 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are coming out with high rate term deposit promotions but only offering them for a very short period before they are withdrawn again from the market.

Westpac dropped its unsustainable 6.8 per cent rate for 12 month terms back to less than six per cent just after Christmas after offering it for just one month.

"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."

Andrew Murray and John Lechte both report that the big banks are particularly aggressive in the term deposit market at the moment.

"It used to be the case that the best rates were always available from the second tier and the smaller institutions but is no longer the case," says John Lechte.

"The big banks are also being quite flexible with big deposits and offering premium rates to large depositors," says Andrew Murray

The most popular term deposits are the shorter terms – three and six months but for people managing their own super funds or saving for retirement or a long term goal, the best option is the longer terms says John Lechte.

"Westpac is currently offering 8 per cent for a term of five years. 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 eight and a half per cent per year for ten years will double your original capital," says Lechte.

"You can get a better return from shares, but you might have to go to hell and back first."

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Popularity: 29% [?]



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