



Play the percentages

By Dougal Beatty
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PORTFOLIO POINT: Investors seeking to escape the volatility of the stockmarket should consider the strong rates being offered on term deposits.

The palpable sense of unease in financial markets has many investors turning from equities for the security of a term deposit.

Fierce competition among local banks has seen some offering as much as 7.25% for just three years. It's not a mind-blowing return but perfectly adequate, the kind of investment that is conducive to a good night's sleep.

Opinions remain divided as to the future direction of the stockmarket (and interest rates, for that matter) but that's what term deposits are all about: forgoing the prospect of more upside in favour of downside protection.

Andrew Murray, managing director of fixed interest advisers Curve Securities, says term deposits have become increasingly attractive for retail investors.

"It's a really interesting segment at the moment because banks are jumping over themselves to take on more retail money," he says.

"There's now a battle for the retail clients' money among the banks and authorised deposit taking institutions (ADIs). It's a boon for retail term deposit hunters, there are some fantastic rates out there and the ball is really in their court."

Rory Robertson, economist at Macquarie Bank, expects interest rates to remain flat for the remainder of the year but says the Reserve Bank may consider lifting the cash rate heading into 2011.

"The RBA has put interest rates on hold at present and has been satisfied with the phasing out of lower cash rate levels," Robertson says. "For now the RBA is happy to sit the cash rate at 4.5% into 2011."

He says that, for the time being at least, the rates available on term deposits do not look like achieving materially higher levels, and that the impact of the financial turmoil on Australia has, for now, been overstated (for more on this, click [here](#)).



Let's consider some of the competitive term deposit offers in the retail market.

Rabobank (a subsidiary of Holland's Rabo Group), Suncorp and ING Direct all have produced some very attractive term deposits that are worth considering for investors with more than \$10,000.

Importantly, you no longer have to lock your money away for five years to get a great rate.

One of the best offers is from Suncorp, which has a 7.25% headline rate with a three-year term for a \$10,000 investment, beating the next best offer from the Bank of Queensland at 7.05%.

This is only five basis points less than the top rate offered to depositors who choose a five-year deposit. The top rate for a term of five years is 7.3% offered by Rabobank. Both Rabobank and Bendigo & Adelaide Bank are offering 7% for four years.

How you compare those offers ultimately depends on your outlook for both interest rates and the world economy.

But before you dismiss the offering from Rabobank it is worth considering that Suncorp's A rating is propped up by the government guarantee. Rabobank's big drawcard is its AAA rating, one of only a handful of banks in the world to maintain this status.

Further, some conjecture remains as to the status of deposits in Australian banks once the government pulls the guarantee in October 2011.

You'll note that none of the big four are sufficiently motivated to provide Suncorp, Rabobank or ING Direct with enough competition.

Investors with time horizons shorter than three years would be advised to consider ING Direct, which has a competitive offer of 6.5% for one and two-year terms, outstripping other deals by 10 and 15 basis points, respectively.

What they're offering for a \$10,000 term deposit *					
Institution	1 Year	2 Years	3 Years	4 Years	5 Years
ING Direct	6.50	6.50	—	—	—
BankWest	6.10	6.05	6.20	6.65	7.25
ANZ	6.00	6.00	6.50	6.00	6.50
NAB	6.00	6.00	6.50	5.00	6.75
Commonwealth Bank	6.00	6.00	6.50	6.00	7.00
Westpac	6.00	6.00	6.50	6.50	7.05
St George	6.00	6.00	6.50	6.50	7.25
Suncorp	6.35	5.60	7.25	5.65	5.90
Bank of Queensland	6.35	6.35	7.05	5.00	—
Bendigo	6.00	6.20	6.75	7.00	7.10
RaboDirect	6.40	6.50	6.75	7.00	7.30

* Rates current as at June 10, 2010 Source: infochoice.com.au

Choosing to go with a term deposit doesn't mean investors can be complacent, especially when it comes to looking at short-term deposits.

There have been reports of some institutions offering a juicy 90-day headline rate then rolling unknowing depositors into another 90-day deposit upon maturity at a much lower rate. ASIC is aware of this practice and will be paying close attention in the future.

Another advantage of term deposits is accessibility. Investors should ensure any term deposit they choose meets their requirements and that the bells and whistles don't cost extra.

Investors wanting to make the most of special headline rates should keep their eyes peeled in the mainstream media or bookmark helpful comparison websites such as **infochoice** and **cannex**.