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Two strategies to better your returns

By Ellen Roseman

"High interest savings" is a contradiction in terms – a false promise – when you check the rates currently on offer.

The best you can do on an ordinary savings account is 1.75 per cent at Canadian Tire Bank.

Just a few low-profile banks (ICICI, State Bank of India, Outlook Financial) pay more than 1.5 per cent.

And ING Direct's "investment savings account" – come again? – earns only 1.2 per cent. (But you can get 3 per cent on ING's tax-free savings account.)

Among the Big Five banks, BMO leads with a 1 per cent rate on its "smart saver account," which requires a $5,000 deposit.

RBC still has the nerve to use the name, High Interest eSavings Account, for something that pays only 0.75 per cent – down from a handsome 3.5 per cent rate 18 months ago.

Given the Bank of Canada's commitment to keep its key rate the same until mid-2010, short-term savings rates will not be going up any time soon.

So banks can keep paying peanuts, knowing that savers have few other options.

"High interest savings pricing has moderated. Most banks have been trimming pricing to improve spreads," says a report by David McVay, an independent banking analyst.

Moreover, "aggressive rates at ICICI and Canadian Tire have failed to drive market share at either institution."

So, how do you make money on your money?

You have two choices: (1) stay safe with guaranteed rates, or (2) take a bit more risk.

David Trahair, a chartered accountant and financial author, is a fan of safety at all costs.

While agreeing that daily interest savings rates are "really pathetic," he thinks the answer is to lock in for longer.

Specifically, he likes buying a ladder of five-year guaranteed investment certificates.

(To do this, you spread your cash among GICs of one to five years. Then, you reinvest each maturing GIC for five years, so you have something coming due each year.)

Several banks pay 3.25 per cent, or slightly higher, on a five-year GIC.

"Remember, this is at a time when interest rates are as low as they've ever been," he says.

He advocates holding your GICs in a registered retirement savings plan or tax-free savings account, so you can keep the growth free from tax each year. (Remember, you do pay tax on RRSP investments when they're cashed in.)

Trahair shares his safety-first views in a new book, *Enough Bull: How to Retire Well Without the Stock Market, Mutual Funds or Even an Investment Advisor,* coming out next month.

Locking in for five years at 3.25 per cent is a bad idea, argues Ted Rechtshaffen, president of TriDelta Financial in Toronto.

"Let's inch along the risk spectrum," he says, referring to products that even conservative investors can handle.

A portfolio of corporate bonds and preferred shares from firms with high credit ratings can give you annual returns of 4 to 5 per cent, he says.

Preferred shares are taxed at a lower rate than interest outside an RRSP, so you get to keep more.

For older investors, he recommends a few segregated funds sold by insurers that let you lock in gains when stock markets rise.

Rechtshaffen, a certified financial planner, recently invested in natural gas futures, using a leveraged exchange-traded fund that will magnify market gains. "Natural gas is at a four- to five-year low at the moment," he says, noting this is a quick trade that he would not endorse for most clients.

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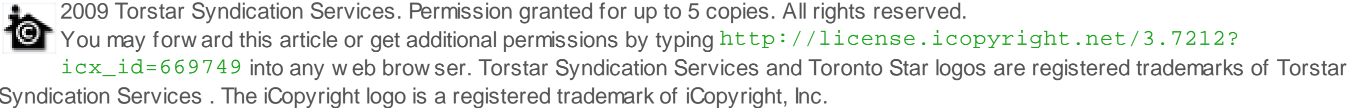
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