



How to make short-term savings go further

When interest rates are low, two things happen. Borrowing money becomes very cheap. And generating interest in your savings account turns into a long slow business. Historically, some banks have offered interest rates as low as 0.05 per cent on ordinary savings accounts during low-interest periods. Do you know how much interest you would earn in one year on \$1,000 at 0.05 per cent interest? Fifty cents!

It would make more sense to take that \$1,000 and invest it in a short-term Guaranteed Investment Certificate (GIC), a term deposit, a money market mutual fund or a high-interest savings account.

GICs are safe investments that offer respectable rates of return. The down side is that your money is tied up for a specified term, usually between one and five

years. So you need to know ahead of time when you'll need your money.

Term deposits may offer lower rates than GICs, but they generally have maturity terms of 30, 90, 180 or 365 days, so your money isn't tied up as long.

A money market fund offers high liquidity, since you can usually redeem units any time you want to. Rates of return are often higher than those associated with high-interest bank accounts. But you'll be paying for management fees, which may erode some of your profits.

High-interest savings accounts have recently been offering at least two per cent interest. They also offer you ready access to your funds and all the usual banking privileges.

It's important to remember that if your savings are short-term – that is, you intend to use them for something within a fairly short time frame, say, three years – then you don't want to invest them in a product that will produce uncertain returns.





INVEST YOUR SAVINGS AND GET A LINE OF CREDIT FOR THAT RAINY DAY

Many people like to have a “rainy day” or emergency fund to serve as a buffer against potential job loss or other sudden expense, such as a major home repair. But if you keep that money in a regular savings account, it’s really not doing much for you.

An alternative is to invest that money instead, and apply for a line of credit to rely on in case of emergency.

A line of credit usually comes with a reasonable interest rate – much lower than what you pay with credit cards – so it can be a useful tool to cope with unanticipated major expenses.

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