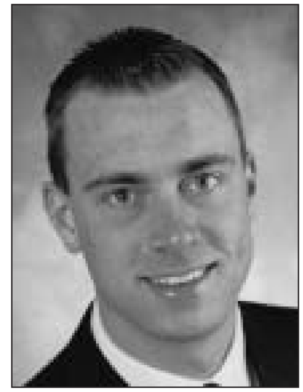

Christopher Elston

Earn Better Rates than the Bank Offers

There was a time when a fool and his money were soon parted, but now it happens to everybody.

Adlai Stevenson

The above expression may never *feel* more true than it has the past couple of years for those who have invested. I frequently come across people who choose to leave their life savings sitting in savings accounts for fear of risking their money by investing it. What these people do not realize is that not all investments are risky. Furthermore, by leaving their money in a bank account, they may have *guaranteed* themselves a reduction in their future purchasing power after taxes and inflation.

At the time of this article, the rate of inflation in Canada is 2.6 percent, and is likely headed higher.

The average bank rate on a one-year GIC investment of $100,000 is 1.8 percent.

This means if you put your money today in a short-term Guaranteed Investment Certificate (GIC), or simply put your money in a savings account in your local bank, *you have a guaranteed investment loss!* And that doesn't even take into account the income tax you pay on interest income!

What are you to do if you want the "safety" of a GIC, yet aren't happy about the returns?

Fortunately several options are at your disposal, such as government bonds and high-grade corporate bonds.

Bonds work the same way as GICs. You loan the government or a corporation your money, and they are required to pay you interest and return your original investment upon maturity. Furthermore, if you need the money sooner than expected, you are not locked in and can sell the bond at any time without penalty.

Not all income funds are created equal. You should always speak with a trusted advisor before making any investment decisions.

In other words, you get higher interest rates and better liquidity!

Bond rates vary, depending on the type of bond purchased. Currently, provincial government bonds are yielding from 3.13 percent to 6.26 percent, depending on the term of investment.

Another option for those seeking enhanced returns without the volatility of the stock markets are Real Estate Investment Trusts (REITs). A REIT is a publicly traded company that manages a portfolio of real estate to earn profits for shareholders. REITs make investments in a diverse array of real estate such as shopping centres, medical facilities, nursing homes, office buildings, apartment complexes, industrial warehouses, and hotels. Shareholders receive monthly income from the rents received, and receive capital gains as buildings are sold at a profit. Currently REITs are yielding from 7.50 percent to 10.00 percent.

Income received from a REIT is also taxed much more favourably than regular interest income.

One final option that investors may include as part of their portfolio are *income funds*. An income fund is an investment company whose main objective is to achieve current income for its owners. This is achieved through investments in a well-diversified portfolio of income-producing assets. These assets normally include high-yielding bonds, dividend-yielding stocks, REITs, and Oil and Gas Royalty Trusts. Income funds are publicly traded and typically yield about 9 percent!

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