

RateShock Sets In!

By George Perdue,
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The recession is over! Right? Well, it depends.

If you are earning a living from the "new economy" or the government you would agree that it's over or that it never happened.

If you are attached to the "old economy" you probably don't agree. Rather you are probably in a fight for survival as your organization struggles with restructuring or downsizing (laying off).

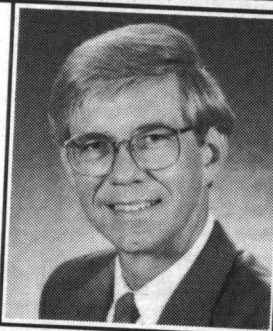
If you are retired and supplementing your pension with interest from investments you are feeling a continuing pinch on income as the government lowers interest rates in an attempt to stimulate the old economy.

As I write, the central bank rate is 5.46%. It has been dropping uninterrupted for weeks. The best fixed income rate for a one year GIC (minimum \$10,000) with a monthly payout is 5.60% at Home Savings and Loan (less for banks) and these rates can be expected to fall.

So what can you do to improve the rate and go back



Money Talk with George Perdue



to having some fun and enjoying retirement?

Generally, the return is a function of the amount of fluctuation in the capital invested at any time. For example, the Canadian stock market is producing some spectacular returns in areas such as resources where the annual projected returns are in excess of 60% right now!

For someone living off proceeds however, this type of investment may require too much management to be appealing.

Piggy-backing off this activity is another option. Investments can be made in securities that pay dividends (and get a tax concession) and simultaneously get a capital gain (smaller than that mentioned above) because they are tied to the stock market growth. Some

of these investments pay monthly and some pay quarterly. The current income stream ranges from 6% to 11%. The investor in these securities has to be able to distinguish between the income stream and the value of the security.

These securities behave like a second house rented out for income. The rent comes in regularly but the value of the house fluctuates with the market.

This strategy requires little management and can bring fixed income people back to the good old days of high interest rates - days we are not likely to see for some years.

George Perdue is a Financial Planner, Business Consultant, and Partner in Money Concepts, Halton Hills. He can be contacted at (416) 873-1877.

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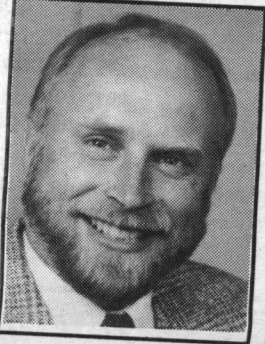
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