

EUREKA *report*



Give your cash a working holiday

By Liz Moran
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PORTFOLIO POINT: Parking cash somewhere safe ensures investors can relax over the summer break. Here are some suggestions.

As holidays approach many investors – both institutional and retail – consider exiting positions to put their minds at ease over the break. With only nine business days to go, I thought now would be a good time to consider your options for safeguarding your capital over Christmas.

With regard to our **\$1 million bond portfolio**, my credit union term deposit matured earlier this month and I'm expecting a coupon payment from my Rabobank bond of more than \$16,000 on January 4, 2011. While I've already committed to making a \$50,000 investment in CBA's retail bond offer (for more on this, click [here](#)), those funds won't be needed until December 20.

So, while I'm assessing different places to deposit funds over Christmas, I thought I'd give you a few tips about reassessing your portfolio and fixed income markets more broadly.

Like the rest of us, financial markets slow down over Christmas. But that doesn't mean they're not operating. If there's a correction during the period, you don't want to be trying to sell assets either because the limited amount of liquidity can exacerbate matters. The following checklist should help ensure a safe, happy holiday for you and your investments.

- Reassess your appetite for risk. Is it still the same as it was a year ago or have you become more pessimistic or optimistic?
- If necessary, change your portfolio to accommodate your views of the market. A more pessimistic outlook would imply a lower risk tolerance. Those investors should consider reducing exposure to more cyclical asset classes such as equities and property in favour of fixed income or cash. The reverse is also true.
- Check your portfolio allocations. Do they still meet the parameters you set when you began your portfolio or last revised it?
- Does your portfolio contain enough high-quality liquid assets to protect your lifestyle if the sovereign debt crisis or any other crisis occurs?
- Consult your financial adviser and make adjustments if necessary.
- Schedule regular intervals to reassess your portfolio allocations (quarterly, semi-annually or annually) and make a note in your diary to follow up.
- Think about your plans for next year. Do you receive enough different opinions to help you make financial decisions?
- Consider boosting your knowledge by some light financial reading on your holiday.

If you don't think you have enough high-quality liquid assets, here are a few suggestions.

Deposits. Top of the list for low-maintenance defensive investments are at call deposits. Short of the bank going broke there is little to worry about. Obviously at-call money is extremely liquid in that you can access it whenever you need it. Typically, the returns on at call money are low given the low risk and the fact the investor can withdraw their money at any time. However, the competitive market for deposits at present is giving investors a free kick with many of the major and regional banks fighting for at call money. Among the best offers at present is 6.25% from a well respected, household name, a very hefty rate when you consider official cash rates are just 4.75%. However, we would suggest you occasionally check to see that the special rate is still being paid and if not, consider locking in a term deposit for a fixed period of time (click [here](#)).

"Top 4" bank sub-debt is highly liquid, low-risk and pays 100–140 basis points over the bank bill swap rate

(BBSW) and is a good place to invest for wholesale investors for a couple of months over the holiday period, however, the minimum investment amount is \$500,000.

The new CommBank retail bond pays similar returns but is more readily accessible, with a minimum initial investment of \$5000. The first coupon period for the bonds is a guaranteed 6% minimum and, as the bonds will be listed on the ASX, will be readily saleable and we think highly liquid. Further, as senior unsecured debt they rank above sub-debt.

Two low-risk, high-quality **corporate bonds, GE and Telstra**, both of which are available through FIIG's DirectBond service as fixed or floating rate notes. They're low risk and while fairly long-dated, offer good relative value for the low risk asset.

Commonwealth Government bonds are highly liquid and considered "risk-free" as are the slightly higher-risk **semi-government bonds**.

For my portfolio, I'll open an "at call" account with one of the regional banks. Its top rate is currently pays 6.25% with no minimum balance for individuals (\$25,000 for businesses). The rates on these accounts usually change with a revision in the official cash rate, so I would expect this rate to be maintained until the next Reserve Bank meeting, on February 1 next year.

On January 4 I'll make a note to check the "at call" rate with the same institution and transfer the \$16,000 from the Rabobank coupon payment into that account.

We're currently seeing a trend to longer-term deposit investments as investors are now predicting the interest rate tightening cycle (higher cash rates from the Reserve Bank) may have peaked. If you're of the same view and want to lock in a fixed rate over a longer period, you can get about 6.2% for a 12-month investment. Beyond that, the yield curve starts to flatten and rates improve marginally with two-year term deposits offering about 6.3%.

Here's hoping this helps Eureka Report readers enjoy their Christmas holidays free from worry about European debt crises and international currency markets. I'll be spending my time hiking in New Zealand, sampling some of the local wines and sleeping soundly, knowing my fixed-income portfolio will protect my standard of living should financial markets deteriorate over Christmas.



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