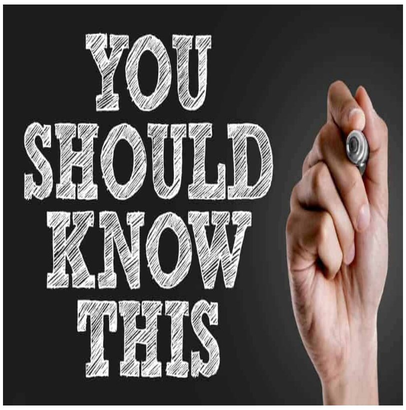

3 Ways to Benefit From Falling Rates

Description

While it seems almost impossible to believe, rates might be coming down very soon in the near future. Just months ago Bank of Canada Governor Poloz was firmly committed to raising rates to a neutral rate of 2.5% to 3.5%. Now, faced with deteriorating fundamentals leading to a potential recession, the Bank might just blink once again and lower rates.

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The problem is, it's not lower rates that are needed. In order to work the enormous amounts of consumer debt out of the system, rates need to go higher, or at the very least stay stagnant at the current level. But the government seems intent on letting our economy rest on the fragile shoulders of excessive debtors, not on the backs of stable savers. Therefore, conservative investors need to have a protection strategy in place to benefit from an economy based on leverage.

Lock in a one-year GIC ladder

At the moment, GIC rates are still much higher than they were a few years ago. Although the rates have fallen somewhat with the shadow of a rate cut on the horizon, you can still find one-year GICs with a rate of more than 2%. Locking in a one-year monthly GIC ladder will allow you to grab a slightly higher yield than keeping cash in a high-interest savings account.

Borrow

Although it seems counterintuitive based on my opinion on debt, borrowing when rates are expected to go down can be a good idea. If you have locked in your one-year GIC ladder, borrowing against that cash can be an excellent strategy.

If you are really lucky, rates will fall below your GIC rate, meaning that you might end up having a positive net return on your GIC investments. Borrowing to buy high dividend stocks or ETFs could then allow you to arbitrage a high rate of return without putting a cent of your own down on the stocks. And if rates start to rise, make sure that you choose good dividend stocks that you don't mind holding for the long term.

Buy stocks and ETFs with high, growing yields

If the economy is going down and rates are going to be cut, collecting those high dividends can provide great returns. Many economists are not expecting much growth, meaning that stock returns will likely also be muted over the next few years. That's why companies like **Inter Pipeline Ltd.** (TSX:IPL) make good, high-dividend investments.

IPL's high dividend of over 7% makes it a prime candidate for this strategy. The company has a solid, growing dividend that should continue to pay you well for years to come. That dividend is supported by locked in contracts that should cover the dividend for the foreseeable future. The primarily Western Canadian pipeline operator has also begun diversifying internationally through acquisitions such as NuStar Europe as well as by business by constructing Canada's first integrated propane dehydrogenation and polypropylene complex due for completion in 2021.

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With any individual company, however, there will be added risk. A potentially less risky ETF alternative to IPL could be the **BMO Canadian High Dividend Covered Call CAD Unit ETF** (TSX:ZWC). This ETF provides exposure to many of Canada's large, dividend-paying stocks with a covered call overlay. The covered calls boost the payout to just over 6%, although the management expense ratio is a relatively hefty 0.72%. Using the ETF will most likely be safer than an individual stock, but will just as likely have lower overall returns and higher costs.

Be wary

Using these strategies will help prepare you for falling rates but will leave you somewhat exposed to higher rates. Think about how fast the economy went from hot to not. The same thing could happen in reverse. If that happens, your income stocks will likely fall, your GICs will be less appealing, and your debt will be more expensive.

For these reasons, you need to have a long-term view and the will-power to borrow only as much as you have cash locked in GICs. The leverage means extra risk, but the strategy should help you benefit if rates fall. Do not be over-leveraged or you will be in as much trouble as every other Canadian out there with large amounts of debt.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)

PARTNER-FEEDS

1. Msn
2. Newscred
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4. Yahoo CA

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