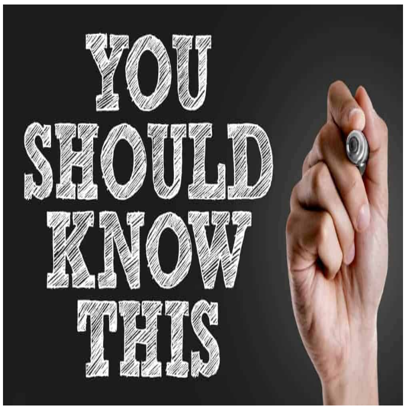

1 Important Thing Investors Should Do as Interest Rates Remain Near Zero

Description

The Bank of Canada recently stated that interest rates will remain close to zero for the foreseeable future. For savers and people who are retired and rely on interest income, that's bad news. It creates little to no incentive to hold your money in a savings account.

With banks paying interest rates well below 1% now, you'd need a stockpile of cash to even earn a modest return. In May, I noticed that the **Royal Bank of Canada** dropped its High Interest eSavings account rate down to just 0.05%. That means even if you had $100,000 in your savings account, you'd be earning a nominal $50 — for the entire year!

Now is the time to stockpile your TFSA

If you've got savings and room in your Tax-Free Savings Account (TFSA), then there's plenty of reason to put as much of your money as you can in there right now. You can earn tax-free income on your investments and any gains or dividend income that they generate. It's a great place to put some income-generating stocks. You can earn a much better return than what you'd get from your bank at this point, without even making much of an effort.

One attractive stock you can put in a TFSA right now is **Bank of Montreal** (TSX:BMO)(NYSE:BMO). Although the Big Five bank is down 19% year to date, that's actually a great reason to buy it — it's cheap and its dividend is high. It's currently trading at 11 times its earnings, but that's also skewed, because the bank has had some weak quarters this year due to credit provisions and preparing for what could be tough economic times ahead.

Prior to 2020, the last time BMO stock was trading below $80 on a regular basis was back in 2016. Its profits will return over time to what they were before the pandemic, and when that happens, the stock's price today will look like a bargain. But even if that takes time, odds are the stock's low price will ensure that it doesn't suffer a big decline, unless there's another catastrophic decline in the markets. Over the long term, however, it's still likely to rise in value.

However, you only have to worry about the stock's returns if you plan on selling it. If you're holding

BMO for decades, then you don't need to think about that. Instead, you can focus on its dividend. And the drop in price has pushed its dividend yield up to 5.2%. Investing $100,000 into shares of BMO or similar-yielding stocks would generate $5,200 in annual dividend income — well above the nominal return you'd earn from holding cash in a savings account. That's why investing as much money as you can into a TFSA and into dividend-paying stocks is a no-brainer right now.

If you don't have room in your TFSA, you can still invest in stocks outside of it. While the income earned will be subject to taxes, you'll still be much better off than holding that money in a savings account.

BMO is just one example of a safe stock to buy right now. You can invest in a variety of different dividend stocks to diversify, or, better yet, hold an ETF for an even simpler investing strategy.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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