Saving for a Home? Put Your Money Here!

Description

Saving for a home can be a long and arduous task. It may take years of sacrifice; however, you will be able to do it. One way to make the journey easier is to be wise about where you put your money. Riskier investment portfolios are unwise, because you do not want to lose any amount of a possible down payment to a downturn. In this article, I will discuss different opportunities that Canadians should consider.

The simplest solution

If you want to be as safe as possible, you can take your money out of the stock market and keep it in a high-interest savings account. This will allow you to keep all the principle, while taking advantage of slightly higher interest rates than you would find in a checking or regular savings account.

EQ Bank offers, what I believe to be, the best high-interest savings account in Canada. As of this writing, the bank offers a suite of attractive accounts. Its tax-free, high-yield savings account currently has a 2.3% interest rate. Putting your hard-earned money here will allow you to keep pace with inflation, whereas accounts with lesser rates will result in a net loss of purchasing power.

EQ Bank also offers an attractive three-month guaranteed investment certificate (GIC) for 2.5%. This can be a very excellent option to pick up a bit more interest than you would in the company's regular high-yield savings accounts. The only drawback would be that your funds would be locked up for the duration of the GIC.

Invest it in a low-risk portfolio

If you are willing to be a bit more adventurous when saving, another option would be to put that money into a diversified portfolio of low-risk investments. I would look at various bonds and dividend-paying companies.

For example, you can choose the **Bank of Montreal Aggregate Bond ETF** (TSX:ZAG). As its name suggests, this ETF gives investors exposure to a diversified portfolio of bonds. This portfolio's holdings are spread among provincial, federal, and corporate bonds spanning short-, medium-, and long-term maturities. As of this writing, there are 1,321 securities held in the portfolio.

Year to date, the portfolio has performed admirably, returning 8.14% as of November 30. This means that a $10,000 investment at the start of the year would have grown to be $10,814 — not bad for a low-risk investment. The last point I will mention is that the ETF has a low management fee. Coming in at 0.08%, you will not be losing a large amount of your funds to fees.

Investors can also look into a company like **Canadian Pacific Railway** (TSX:CP)(NYSE:CP). Canadian Pacific is my top choice among the Canadian dividend all-stars. Although it would be more of a risk than holding your money in a bond ETF or a GIC, Canadian Pacific has reliably returned value to investors.

Over the past five years, Canadian Pacific stock has gained 154%, as of this writing. Looking back at the past year, the stock has returned about 32%. These are incredible gains considering the stock isn't a high-flying tech start up. Canadian Pacific has managed to produce these returns while maintaining a beta of 0.75. This means that the stock is less volatile than the broader market.

Foolish takeaway

Saving for a home can be difficult. Many Canadians are unsure of the different strategies they should employ when in the process of saving for a down payment. I would consider a high-yield savings account or GIC (bonus points if it's in a TFSA). You can also look into creating a portfolio composed of low-risk holdings. Examples of holdings can be a bond ETF or a dividend-paying company. With smart capital allocation, you can find yourself in a new home in no time.

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2. TSX:CP (Canadian Pacific Railway)
3. TSX:ZAG (BMO Aggregate Bond Index ETF)

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