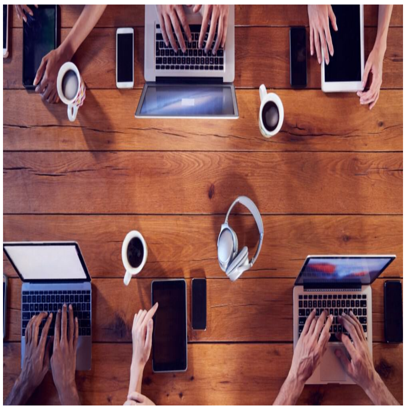

Millennials: 1 Strategy to Save for Your First Home

Description

Home prices in Canada have been skyrocketing in recent years. In Ottawa, the median sale price for a single detached home was $571,000 in Q3 2020, which represents an increase of 24.1%, year over year. Town homes saw an even larger year over year increase (26.8%), with a median sales price of $450,000. This means that if you wish to pay 20% down on your first home, you will need to save $90,000 or more for an average home.

In this article, I will discuss two ways you can help accelerate your savings rate.

Invest in bonds

The first investment vehicle millennials can use are bonds. These are a popular investment choice for those saving for a home because they tend to be much less volatile than stocks. Bonds also offer a stable and consistent source of income, which may also attract investors. Finally, the rates that investors can get on bonds can be more attractive than the returns available through savings- or money market accounts.

There is a plethora of bond options available to investors ranging from government-backed bonds to corporate and span a range of maturities. An easy way to get invested in bonds is to purchase a bond ETF. My top choice among bond ETFs is the **BMO Aggregate Bond Index ETF** (TSX:ZAG).

The goal of this fund is to replicate the performance of the FTSE Canada Universe Bond Index, net of expenses. The BMO Aggregate Bond Index ETF features more than 1,300 holdings consisting of provincial, federal, and corporate bonds. One particularly attractive feature of this ETF is its low management fee. With an expense ratio of 0.08%, fee-adverse investors have little to worry about in that regard.

As of this writing, the BMO Aggregate Bond Index ETF sells for just under $17 a unit. According to the ETF's performance chart, a $10,000 investment at the start of the year would have turned into $10,766.89. This represents a growth of 7.69% for the year.

Invest in a GIC

If you are interested in an investment option that puts your capital at even less risk, then Guaranteed Investment Certificates (GICs) may be something to consider. With a GIC, you are always guaranteed to have your initial investment returned to you (hence the name). However, there are some downsides that come with this form of investing.

First, your capital will likely be locked up until the maturity date. Depending on the contract you agree to, this could be as little as three months and as long as a decade. If you decide to take your capital out before the maturity date, penalties can be applied to your account, which includes losing all of the accumulated interest.

Another downside in choosing to invest in a GIC is that the offered rates tend to be a lot lower than other investment vehicles. Currently, EQ Bank, a subsidiary of **Equitable Group** (TSX:EQB) offers the most attractive rates in Canada. Using a TFSA, EQ Bank offers a 2.5% interest rate on its three-month GIC, giving investors a return that keeps pace with inflation.

Foolish takeaway

When saving for a home, investors should look for investment vehicles that are much less risky. By combining the use of bonds and GICs into your savings strategy, investors may be able to accelerate savings rates.

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2. TSX:ZAG (BMO Aggregate Bond Index ETF)

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