Stay Hot as Rates Cool Down

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LOW interest rates are likely to last longer than many Australians expect, meaning now is the time to make the most of the new financial landscape.

The Reserve Bank's 0.25 percentage point rate cut last week is tipped to be followed by another before Christmas, and economists say the world is stuck in a low-rate, low-growth cycle.

"Low interest rates are likely to be with us for some time," says Baillieu Holst financial adviser Alex Butler. "Now is the time to re-evaluate your financial health and strategy. Otherwise opportunities will be lost and wealth whittled away."

While the big banks only passed on a portion of the RBA rate cut, they lifted some of their term deposit rates more than three times as much to about 3 per cent.

That means it's more important than ever to shop around for deposit rates. Check online comparison websites and speak with your bank.

Investors, Butler says, should hold shares within their investment mix, focusing on proven stocks with solid dividend yields plus capital growth.

The income yield of the All Ordinaries index is currently about 4.2 per cent, and close to 6 per cent once you include tax benefits from dividend franking.

Financial strategist Theo Marinis says, "nobody's upset when markets go up, but when they go down, as long as you don't crystallise your loss by selling, they eventually go up again."

Longer lifespans mean people need their assets to grow at least in line with inflation. "For a couple of 65-year-olds, there's a 90 per cent probability that at least one of them will live into their 90s," Marinis says.

Wealth on Track principal Steve Greatrex says retirees should beware of investment schemes offering returns higher than cash in the bank. "People have to get used to lower returns across the board," he says. Embrace lower costs in areas such as petrol, electronics and holiday accommodation, he adds.

And borrowers should demand a better deal if their home loan rate is greater than 4 per cent.

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