Low interest rates not all bad for retiree's

It has been thought for quite some time that interest rates in Australia will remain low and this is still the school of thought. There are many reasons why we need low rates and many benefits in them staying there. Policymakers don't seem to want to even entertain the idea of significant rises because of the potential damage that would do to the economy.

Over the past thirty or so years we have had unusually high interest rates compared to the longer history of the markets in its entirety. During this 30+ yrs it became the norm for retirees to depend on these unusually high rates to provide their income off the back of their retirement savings.

Over the past 7 years reality has set in for many and they have started looking for alternatives to bank interest for their income. However there are still many retirees stuck in the reality that interest rates are historically low and are left eating into their capital for their daily living requirements.

Statistics show that the biggest asset class held by the SMSF (Self-managed Super Fund) community is Cash - and as a result, many in this sector of investors are missing out on favourable returns by not looking for the alternative asset classes.

Recently we spoke about the consideration of investing in infrastructure as a means to delivering a reasonable income yield. Likewise the share market should be viewed as a general part of a retirement investment strategy. The fact that interest rates are deemed by many to stay low into the future will likely cause the share market to behave with far less volatility.

There are also Managed Funds available for investment in high yield funds where the use of a portion of the pool is invested in short term corporate bonds that are currently providing a very worthwhile income yield.

It might seem like a cliché to many but the tried and proven method of diversifying a portfolio will generally provide the best result. Consult your financial adviser and discuss your options.