MAKE THE MOST OF YOUR

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With the Reserve Bank driving official interest rates to the lowest levels since the global financial crisis, investors chasing income from savings face lower earnings from government-guaranteed deposits.

This will result in investors seeking better returns from higher-yielding, higher-risk investment plays. Term-deposit rates have fallen well below 5 per cent and are expected to go lower, creating a gap between that and dividend yields on offer from bank and other high yielding shares.

The chase for yield could also increase investor demand for so-called hybrids, securities that are primarily debt but have other characteristics such as variable interest rates or redemption methods or be convertibility to equity.

NWQ Capital Management co-chief investment officer Sharon Hicks said falling rates would result in investors who were chasing after high-yielding investments, including hybrid securities by the big banks, ending up with highly concentrated exposure in their portfolio. She said the performance of hybrids tended to be linked to the equities market, despite a common perception they were defensive assets. "They are more equity than debt," she said.

Investors should consider whether bank earnings and lending growth was sustainable, she said.

Financial planner Patrick Canion said the dividend yields of industrial and bank stocks were starting to look very good.

Mr Canion said investors with plenty of savings were assessing their portfolios based on income rather than the account balance.

"We are saying to our clients, if you renew your term deposit you are looking at 4 per cent, buy a bank share you are looking at fully franked 10 per cent-plus," he said.

Morgan Stanley senior vice president Stuart Beattie said he was cautious and defensive but saw an opportunity for investors to take on a little bit more cyclical risk.

Mr Beattie said it was still worth considering an investment in the banking sector, where gross yields were between 9.5 and 10 per cent, and it was also hard to look past Perth-based Wesfarmers.

BHP Billiton and Woodside were also attractive because of their strong cash positions and earnings, as well as the ability to raise dividends.