Investment funds let money managers work for you

Investing in stocks, bonds, or real estate requires substantial expertise and the time to manage your financial affairs on a day-to-day basis. Investment funds are ideal for people who don't have the time or expertise to manage their own investments or who are bewildered by the growing array of investments now available. That's why investment funds were developed and why they have become increasingly popular in Canada. In 1985, investors poured more than $4.2 billion into funds associated with the Investment Funds Institute of Canada, and, by the end of 1986, over one million Canadians will have purchased investment funds.

With an investment fund, your money is pooled with the money of many other individuals and invested in a variety of securities, companies and industries. Individuals who invest in investment funds rely on skilled professional money managers to manage their investments full time.

Investment funds offer a number of powerful attractions over other investment vehicles. They offer the kinds of features most investors are looking for professional management, diversification, the potential for real growth as measured against inflation, and liquidity.

Investment funds put the high-priced services of professional money managers within the reach of small investors. They make it possible for the average investor to build a diversified, professionally managed portfolio. All the efforts of a professional money manager are directed towards the proper selection of securities with full diversification available. The professional money manager has the time, the capital, and the knowledge to provide a properly diversified investment fund. As a result, most money managers outperform individual investors.

Diversification is an important goal for most investors. Only the brave or foolish invest everything in one type of asset or security. Investment funds offer a degree of diversification you probably couldn't afford individually. If you have only $1,000 or so to invest, you simply don't have enough cash to spread your risk by purchasing a wide variety of investment vehicles. But in an investment fund, you can buy a small piece of a highly diversified basket of assets.

Despite the benefits of diversification, the expertise of skilled money managers, and the potential for growth, investment funds are not immune to the vagaries of the market. They can and do go down as well as up. For this reason and because of the costs associated with opening, administering and closing accounts, investment funds should be viewed for the longer run. They are not suitable for quick turnovers or for money that may be required on short notice.

There are many types of funds, each investing in different types of securities and commodities. They cover a broad spectrum, from full investment in equities to a blend of equities and debt to a full investment in debt.

An example of two types of funds at the opposite ends of the spectrum are a money market fund and an equity fund. A money market fund is composed of high-quality, short-term, fixed-income corporate and government securities. It combines the liquidity of a bank account with a high degree of security and a competitive short-term return. You earn interest strictly on your money, but there is virtually no risk involved.

An equity fund is for the more adventurous investor - the person who is willing to take a few risks with the knowledge that long-term financial success is distinctly possible. This fund is fully invested in stocks and can experience wide fluctuations in performance. Over an extended period of time, however, an equity fund offers potential for significant capital appreciation, is a good hedge against inflation, and provides worthwhile tax advantages.

With a wide range of investment funds available, you are able to choose a fund appropriate for your risk selection and comfort zone. The selection should be made only after a full discussion with a qualified advisor.

—Courtesy Mutual Life of Canada

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Seniors offered opportunity

By HERB LAROCHE and PATRICK DONNELLY

Now that Parliament has resumed its deliberations in Ottawa, we may see some fast action in enactment of several important proposals contained in last February's federal budget.

Senior citizens have been most affected by the protracted delay in dealing with the budget. The government has proposed to greatly relax the rules that govern what you can do with the money you've accumulated in a Registered Retirement Savings Plan (RRSP).

The big break involves an investment opportunity called the Registered Retirement Income Fund (RRIF).

Many Canadians have at least some knowledge about the RRSP. It's a sound method of putting money aside during your working years, to provide you with retirement income which will be additional to government and private pensions. There are limits to how much money you may invest each year in your RRSP (in fact, you can own more than one RRSP).

However, up to now you have had rather limited options as to what you can do with your RRSP funds once you retire. The alternatives are to convert the RRSP funds into a life annuity, a RRIF or cash - or any combination of these.

There is plenty of time to select a suitable alternative, one that matches your personal needs, even when you retire at age 65. Your money can remain in your RRSP and enjoy its tax-sheltered status up until the end of the calendar year in which you reach age 71. But keep in mind that you must do something with your RRSP funds before the year-end. If you don't, your RRSP will be automatically "deregistered" at the end of 1986, and thus be exposed to full taxation.

Basically, your option is between a life annuity and a RRIF.

Depending upon your personal financial circumstances and needs, a RRIF provides you with more long-term benefits than an annuity. A RRIF is a plan based on the simple principle that as the cost of living rises, so will your retirement income. That makes it an excellent hedge against inflation.

One disadvantage of a RRIF compared with an annuity is that initially your retirement income payments from your plan will be lower. However, the capital you have accumulated in your RRIF will continue to grow at the same time as your income payments are increasing.

Another disadvantage of a RRIF is that Ottawa limited the amount of income you could withdraw from a plan each year. But the new federal budget proposes to abolish the limitation on what is withdrawn from a RRIF.

Keep in mind, however, that a RRIF holder must continue to receive a minimum annual payment from the plan. What does change is that the RRIF holder may take any income in excess of the minimum required payment in any year. The effect of this rule change is that you have much greater control over your pool of capital and the income payments it generates.

Yet another RRIF benefit proposed in the budget is that payments out of a RRIF will be allowed to start at any time after the plan is purchased. At present a RRIF holder has to wait until the next calendar year before he or she can receive any payment from the plan.

—Herb LaRoche and Patrick Donnelly are financial planners with the Investors Group, Brampton Office.

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