

Outlook on Business

Earning interest can be a losing proposition

Can you afford to earn interest? I can't, even at 10 per cent or 11 per cent annual return. I have no investments that earn interest, such as mortgages, Guaranteed Investment Certificates, savings accounts (other than a small account for vacation purposes and paying regular bills), no Canada Savings Bonds, or noted and loans to other people. In fact, when my son purchased a home, and asked if I would like to assume the mortgage, my immediate answer was, "No way, but I'll back you at the bank or trust

company, if you wish." (Let them earn the interest). You see, I can't afford to lose purchasing power each year. It has always surprised me that most people, in putting their savings to work look at only one thing, and that is "rate of return." If it's 11 per cent, they think they will have 11 per cent earnings to spend. But, will they? The second thing to look at is "rate of return after taxes." That is a very, very important point, and the third thing to look at is "inflation." Those last two points, in the past

several years, have made it a losing proposition for me to "earn interest." Let's look at it! If you were to earn 11 per cent per year in interest and have a taxable income of between \$15,000 and \$30,000, you would be paying approximately 30 per cent in taxes. Therefore, an 11 per cent return would (at 30 per cent) be reduced by 3.3 per cent, leaving an after tax return of 7.7 per cent. If you have a taxable income of \$50,000, you will be paying taxes at approximately 45 per cent, therefore on 11 per cent, your tax return would be



only 6.2 per cent. Last year, inflation was 4.5 per cent (1987). This means the lower income tax payer, earning 7.7 per cent after taxes, would gain only 3.2 per cent in purchasing power, whereas the higher income person would suffer the same 4.5 per cent loss to inflation, pay 6.2 per cent taxes, which added together equals 10.7 per cent. When you deduct this from his 11 per cent interest, it leaves only 0.3 per cent gain in purchasing power. Now let's suppose you were to earn 15 per cent in capital gains and dividends. If you were in the \$11,000 to \$15,000 taxable range, your dividends would not only come to you free, they would also save you taxes on your earned income. Capital Gains on the other hand are only two-thirds taxed. In other words, if you achieved a Capital Gain of 10 per cent, only 6.6 per cent of it would be taxable at whatever

rate you pay. I would much prefer to have a gain of 8 per cent in dividends, than 10 per cent in interest, because (thanks to taxation) I would have more to spend after taxes with the dividend return, than with the 10 per cent interest return. People continue to remark: "How come no one has ever shown me before the difference taxation makes in the various types of return?" I think the answer is quite simple. Most institutions, that we deal with day after day, such as banks, trust companies, credit unions, offer only one kind of return, and that is interest. Even my bank manager admitted to me he did not understand the difference that taxation makes on interest, versus dividends and capital gains. And I don't blame him, all he deals with is interest return.

For a free pamphlet on how 20 mutual funds have performed year by year, for the past 10 years, contact: Peter C. Masson, 10 Fagan Drive, Georgetown, Ont., L7G 4P3. Or phone 877-7218. Paul J. Rocket is the author of the best seller "Why I Invest in Mutual Funds" and President of Regal Capital Planners Ltd.

Hydro tests new heat pump designed to help save energy

Ontario Hydro will test a new heat pump/heat recovery system at its Orangeville trades training centre next year. The system will use waste heat from clothes dryers to heat water for washers at the centre's laundry facility.

The training centre operates like a small hotel, with a commercial-size laundry facility on-site. Over the next few months the heat pump system will be installed to draw excess heat and humidity from the dryers and laundry area and use it to heat water. It's expected almost all the energy currently needed to heat water will be provided by the heat pump, saving energy and making the work area more comfortable for staff.

More power to Cockburn Island. Cockburn Island residents can now turn on their lights, television sets and other appliances any time of the day or night. Thanks to a joint effort by Ontario Hydro and the Island Township, Cockburn is now served by the Ontario electrical system instead of diesel generation. The island is at the western tip of Manitoulin Island in Lake Huron. During the summer, Ontario Hydro had a four-kilometre underwater cable laid from Manitoulin Island to Cockburn Island. Cockburn Township then constructed the distribution line to the village and

Hydro did the line hookups to homes and buildings. Power was turned on at 6 p.m., Oct. 13.

Residents now have access to all the electricity they need at all times, whereas diesel generation was available only during certain hours of the day.

Students play electricity planning game

What route should a planned electricity transmission line take? Will it cross farm land or the industrial park? Should standard towers be used, or more expensive, narrow-based towers? These are some of the problems to be solved in a new simulation game, developed jointly by geography teachers and Ontario Hydro for Ontario high schools.

Students are divided into groups to represent economic, environmental and social concerns with the proposed transmission line route. A fourth group is nominated to be the Ontario Joint Hearings Board - those who will make the final decision on the route after listening to all concerns.

The exercise was developed in response to teachers' requests for a learning tool that would help explain Ontario's public hearings processes. The game draws on Ontario Hydro's experience in planning and getting approval for transmission lines in eastern and in southwestern Ontario.

Electricity use in October. More than 10.8 million megawatt-hours of electricity were used by customers in October, 3.2 per cent more than in October of 1987. The highest peak demand last month (the point of time when the most power is being consumed) occurred on the last day of the month. On Oct. 31, at 4:30 p.m. the peak reached 18,600 megawatts.

The previous weekend, electricity demand hit a higher level than expected when customers turned on lights and heating to cope with cold, rainy weather. On Saturday, Oct. 29, demand grew 1,100 megawatts more than was forecast.

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