

Now comes the time to begin looking at choices

As the March 1 deadline for contributing to registered retirement savings plans approaches, people are beginning to look at the choices they have.

There are the usual term deposits and guaranteed investment certificates, which offer attractive rates of interest. There are stocks, bonds and mutual funds. Which of these varied investments will grow most over time is a question no one can answer for sure.

But with the real-estate market still popular, more people are turning to real-estate mutual funds. Whether real-estate funds are prudent investments in the current real-estate market is a question investors should ask themselves.

Real-estate funds make up a tiny proportion of mutual fund assets outstanding in Canada - less than



Your Business
Diane Maley

Thomson News Service

one per cent. Even so, investor interest is growing slowly but surely.

People who run these funds swear by them, pointing out that the rewards are manifold. They offer a respectable yield, comparable to a stock dividend; they offer a chance to earn a capital gain over time; and some funds offer tax advantages as well.

To make themselves more attractive, many real-estate funds offer a guaranteed minimum return, with capital gains as an ad-

ded bonus. Some trade like mutual funds; others are sold in the form of trust units, which can be listed on the stock exchange.

TO OWN OR TO LEND

When the real-estate market is booming, real-estate mutual funds look irresistible. But now, with the market showing early signs of faltering and interest rates high, investors may find better value in mortgage funds.

Mortgages, after all, are the other side of the coin in the real-estate market. Many banks and trust companies offer mortgage mutual funds at attractive yields.

Generally, you can expect to earn less on a mortgage fund than you would lending money directly to a person needing a mortgage. Of course, you save yourself a lot of trouble and risk.

A mortgage fund is a pool of mor-

gages, having different terms to maturity and carrying different interest rates. The return investors earn is "blended" in much the same way as the yield on a bond fund, for example.

MORTGAGE-BACKED BONDS

Another way to earn a respectable yield in the mortgage market is to buy mortgage-backed securities, a popular new product backed by Canada Mortgage and Housing Corp. The MBS concept is one whereby assets such as mortgage loans are "securitized."

With securitization, a lender with a bundle of mortgage loans decides to pass them on to the public in bite-sized chunks. The lender does this by issuing paper (debt obligations) backed by the security of the mortgages it holds.

Theoretically, securitization could allow you to buy a share of

your neighbor's car loan or your husband's credit card bill. In practice, it has allowed brave investors to buy a piece of Mexico's debt - at a discount.

You can buy mortgage-backed securities from a stockbroker, although they are often in short supply. As a rule, they offer yields slightly less than you would get on GICs, but more than you will earn on government bonds of the same term.

In the end, what you decide to put in your RRSP will depend on what you have already, how old you are, how much money you have and how much risk you can tolerate. It will also depend on whether you have a big mortgage hanging around your neck. If so, you might decide to forget the RRSP for now and pay down your mortgage.



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