

Monthly saving on RSPs is the way to go

Jim, John, and Jerry, (our mythical friends) have been saving \$2,400 per year into their RSPs for the past 20 years.

They are now about to retire, and looking forward to the day with glee. They each prided themselves (as they should) on having the foresight to have saved that \$2,400 per year into their RSPs. True, each of them had saved over 33 per cent per year in taxes (\$800 per year), so the true cost was only \$1,600 per year (\$133.33 per month).

"Just imagine," said Jim, "we now have the time to look after our house repairs, do the things we've always wanted with our time, and to travel and see the world."

"And," replied Jerry, "we now have the income to do all those things, again, thanks to those RSP savings. I expect to take \$3,500 per month from my Registered Retirement Income Fund (RRIF) and expect to have the dollars grow besides. That \$350,000 in my RRSP sure looks great."

"\$350,000!" shout both Jim and John. "We don't have that amount in our RSPs!"

And so they discussed how they had saved their \$2,400 per year. It was discovered:

JIM had saved his \$2,400 per year in a savings institution where he had averaged 10 per cent (over the 20-year period).

JOHN had put \$2,400 per year into a mutual fund that had averaged 15 per cent per year.

JERRY had put \$200 per month (\$2,400 per year) into the same mutual fund as John had used, averaging 15 per cent per year.

JIM was worth \$151,200 (savings institution).

JOHN was worth \$282,000 (mutual fund).

JERRY was worth \$350,000 (same mutual fund).

All had invested exactly the same amount, \$48,000 over the 20 years. But they had different dollar amounts available now for



IT'S YOUR MONEY
Paul J. Rockel

their retirement.

Jim had saved his \$2,400 per year, and his important objective each year was to reduce his taxes. He gave little or no thought to what his savings were growing at, and so left it at the savings institution, figuring a 10 per cent average "was pretty good" (it is).

But both John and Jerry, while interested in the tax savings also,

looked for ways to achieve a better rate of return, and found that most good mutual funds have averages of 15 per cent and better per year, if you look at 10-year results and longer.

But, both of them used the same mutual fund, and invested the same amount of monies each year. Why does Jerry have over \$50,000 more than John?

The answer is obvious. They both "earned the same," but John put in \$2,400 per year, each February, whereas Jerry contributed \$200 PER MONTH (using a pre-authorized cheque plan whereby it automatically was invested for him each month).

Let's use our calculator for a bit. \$2,400 per year x 10 per cent (Jim)

x 20 years, equals \$151,200.

JOHN: \$2,400 per year x 15 per cent x 20 years, equals \$282,744.

JERRY: \$200 per month x 15 per cent (1.25 per cent per month x 20 years (240 months), equals \$303,190.

Even the calculator tells us that Jerry (monthly mutual fund saver) has double the amount of Jim (institutional saver), and that he has \$20,000 more than John, who saved in the same mutual fund. The reason is that Jerry saved MONTHLY.

But, by using equity funds, Jerry ends up with even more gain, because something called dollar-cost-averaging was working for him. By investing regularly during both the ups and downs of the equi-

ty funds, he was sometimes buying bargains, which gave him an average better rate of return than 15 per cent, despite the fact the fund "averaged" 15 per cent.

Would you like more in retirement? Maybe you should consider investing monthly, rather than just once a year (as so many of us do). Start next year's monthly RSP contributions NOW.

For a free brochure on mutual funds, ask for "Why Doesn't Everyone," contact: Peter C. Masson, 10 Fagan Drive, Georgetown, Ont. Or phone 877-7216.

Paul J. Rockel is the author of the best seller "Why I Invest in Mutual Funds" and President of Regal Capital Planners Ltd.



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For more information, call Sandy Lucas, 875-2200, Halton Region Museum, RR3, Milton, Ontario L8T 2X7.

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