

You must invest rather than save

By PAUL J. ROCKEL

Fifty years ago when I was growing up, anyone who became a millionaire, or was a millionaire, was looked up to in awe and held in the highest esteem.

Today, I am told there are several new millionaires developed virtually every working day of the week.

I can also state that 50 years ago the average wage might have been \$20 per week, and when I started working as an apprentice in 1942, I received 20 cents per hour, but skilled workers were earning 70 to 80 cents per hour (I remember a union winning a contract giving their workers 80 cents an hour, a fantastic figure back then).

So, a millionaire, 40 or 50 years ago was really something. Those workers who won that contract at 80 cents per hour (48 years ago) are probably earning \$15 to \$18 per hour, plus benefits of as much as \$5 per hour. That's an average of over 20 times what they were earning 48 years ago.

This also means that today you would have to have achieved more than the \$20 million dollar status, to have the same purchasing power as \$1 million had back in 1942.

What have the last 20 years shown? Inflation has averaged 7.02% per year, thank goodness it has been much lower in the last seven years. It means that today, it costs \$38,842 to purchase the

same amount of goods and services that \$10,000 would have bought 20 years ago. We need \$3.88 to buy what \$1 bought back then!

Frightening, isn't it? We still hear people say, "I want to become a millionaire," but does it have the same meaning as the millionaire status did when I was a boy?

What about the people who do achieve the millionaire status, even today? Can you name one, yes just one, who became a millionaire by saving and putting their savings into so-called "guaranteed" investment available from banks, trust and insurance companies? I don't believe there is such a soul, because all people who do become wealthy do so by "investing" rather than "loaning" money to an institution, which is what we do when we make deposits.

Let's suppose 20 years ago someone had \$1 million and they loaned it out (to a bank, trust company, insurance company or to the Government by buying Canada Savings Bonds and/or T-Bills) and achieved a 10% return all the way through.

Someone else bought an apartment building with their \$1 million 20 years ago, and received a rental profit of 10% all through those years. You can say they both earned the same income. True.

But the apartment owner saw

the value of his apartment grow to \$3,884,776 (if it just kept pace with inflation), whereas the person with the money earning interest still has only the \$1 million (but it's guaranteed). One is \$2,884,776 richer than the other, yet they both earned the same "income" (10 per cent).

What if you had that million dollars 20 years from now. If inflation equals what it was in the past 20 years, a \$15,000 car will cost \$58,263.

What will your savings buy, 20 years from now? Will your savings increase in value to give you

purchasing power that exceeds the ravages of inflation and taxes?

This writer believes that we must all become "investors" (I use mutual funds) rather than "loaners" who earn interest. When we earn interest we achieve the profit (which is 100% subject to taxes) and our principal is eroded by inflation. When we own something (investors) we receive profits in the form of dividends and capital gains (both of which are taxed much less than interest) and over time the value of the asset is likely to

match or exceed inflation.

How do you save your money? Or do you save for your future well-being? Do you save 10% of what you earn? Do you understand the concept of paying yourself first?

For more information at no charge, contact Peter C. Masson M.B.A., Regal Capital Planners Ltd., 10 Fagan Drive, Georgetown, Ontario 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.

Investment dealers can offer advice

By BRIAN SLESSOR

If you are a small business owner, you may have wondered whether an investment dealer has any services to offer that could make your business more profitable and your investing more convenient.

One area where an investment dealer can be of assistance is in helping to manage short-term cash needs. Often in your business, you will find yourself with large amounts of cash on deposit for a short period of time. Any funds which are not currently required for immediate needs are the basis for a short-term portfolio. These funds can be invested temporarily in Money Market investments which are short-term notes with maturities under one year earning a fixed rate of return. A quick telephone call to your investment advisor is all it takes.

The Canadian Money Market is a wholesale \$200 billion marketplace. ScotiaMcLeod is on a group of three Canadian dealers who are responsible for over 65 per cent of all money market trading. The instruments which comprise the money market often have higher yields than those available with competing instruments. Some of these instruments are: Canada and Provincial Treasury bills (which are available in multiples of \$10,000 and \$25,000 respectively), Canadian Chartered Bank Bearer Discount Notes and Acceptances (multiples of \$100,000) and Commercial Paper which is the short-term debt of investment grade Canadian corporations and government agencies (multiples of \$10,000). For large amounts, funds can even be invested overnight at an attractive rate.

To purchase a money market investment, all you need to do is call your investment advisor. The securities will be held for you in safe custody. Maturity dates can be tailored to meet your requirements and most money market investments can be sold prior to maturity at prevailing market rates.

Another way in which an investment dealer can be of service is in providing you with research on your own business. Research Departments routinely issue reports on various industries

which can help you with strategic planning.

The demands of owning a small business often mean that owners lack the time to organize their own finances which can prove very costly in the long run. An investment dealer can help you here too. From assisting with cash management and portfolio planning to helping you plan for your retirement, an investment dealer can be of significant assistance.

Likely the most important of these objectives is to begin planning early for your retirement. As an independent entrepreneur, you will not receive benefits from a company pension plan, and what the government provides through Old Age Security and the Canada/Quebec Pension Plan is small and by no means certain, therefore, the onus is on you to make sure that your own needs at retirement will be met. This can be done through an RSP, or if you employ several individuals, you might want to give consideration to establishing a Group RSP.

Either way, an RSP is the best way to set aside funds for retirement because contributions to an RSP can be used to reduce taxable income and because earnings on these contributions compound tax-free until they are withdrawn from the RSP.

Because you are not a member of a company pension plan, you are allowed to contribute the lesser of \$7,500 or 20 per cent of earned income to an RSP for 1990. Maximum limits are scheduled to begin increasing in 1992 until they reach \$15,500 in 1994.

These increases are very good news for independent business people because they mean it will be possible for you to invest enough in an RSP over your working career to generate sufficient income for you and to have a comfortable retirement. An investment advisor can help you structure an RSP portfolio that will meet your investment objectives and help you accumulate the funds you need for your retirement.

Brian Slessor is an Investment Executive with ScotiaMcLeod. Questions should be directed to Brian who can be reached at 416-863-2825. If calling from outside Toronto, call collect.


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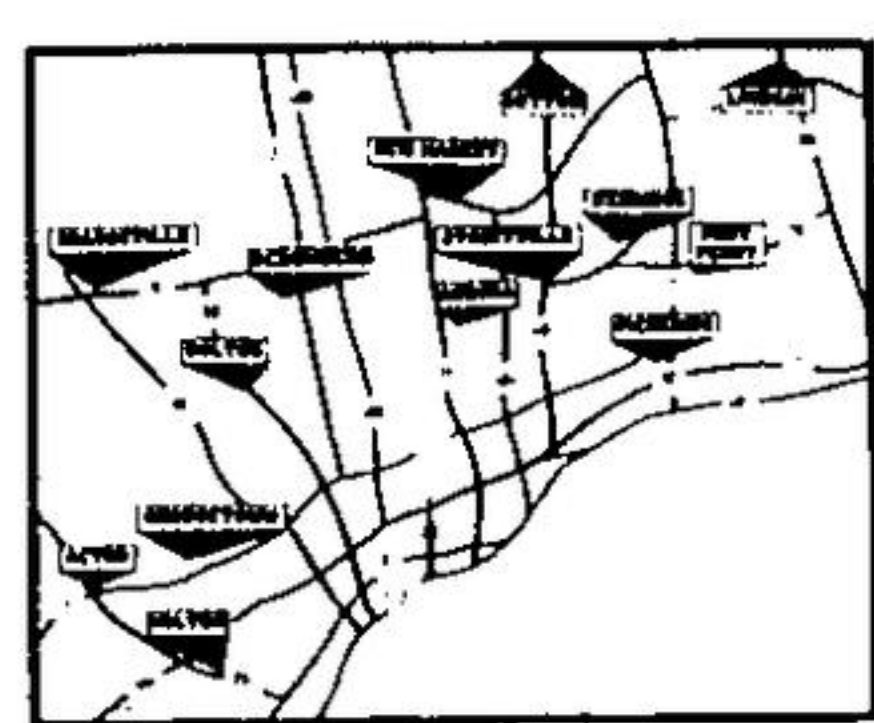
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