

Money Matters

Financial planning key to future security

Last week we looked at the stages of economic cycles, home ownership, interest rates and financial markets and how it relates to investor sentiment.

It is unfortunate, but true, that when the public thinks a recession is coming they tend to "bathe down the hatches." On the other hand, when the economy is buoyant people tend to get carried away with it all and over extend themselves, and pay too high prices for things. This is human nature however many economists think that this tends to exaggerate the up and down cycles. The euphoria of it all on the way up makes many think that the cycle will go on forever!



IT'S YOUR MONEY
Paul J. Rockett

It never does.

These cycles tend to make some people abandon their financial planning. Others don't have any financial plan at all.

We all know that if a doctor is ill he doesn't try to treat himself, he turns to another doctor for treatment. If a lawyer is involved in a personal legal matter that

may require a court appearance, he rarely acts for himself, rather he engages another lawyer.

So, what's with a formalized financial plan? After all, many people say, "I earned it. I can invest it."

But can you be your own financial planner? Are you totally objective, or do you rationalize financial problems for which you are uncertain of the solution, and thus shove the whole matter aside? Many do!

Could an evening with a financial planner help you? What is a financial plan anyway?

Well, it's a lot of things. It starts with your "living estate" and your "death estate." Looking at your "living estate," there are only two ways to earn money. One is "person at work" and the other is "money at work." If you can't be "person at work" you better plan to have "money at work" because with the debt this country has we won't be able to count on the government to fill the gap in the future. It doesn't come close now.

The "death estate" is insurance to provide for obligations that most younger people have while they are working and saving to build up that "living estate" with "money at work."

I simply can't save money!
How often I hear that excuse! Most Canadians at retirement have at least three financial assets, their pension plans (at work if the employer has one) and/or the Canada Pension

Plan, their house, and their life insurance.

Ever stop to think how these things were acquired?

They were acquired by regular deductions from the pay cheque
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Choose correct RSP

One of the most common errors made by many investors is not choosing the best RSP for their own needs. It is human nature to delay considering the alternatives, wait for the last minute before the contribution deadline in February, and end up selecting the closest financial institution, the one with the shortest queue or the best contest. These are not the best criteria for evaluating the type of RSP you invest in this year. Your RSP contribution is likely the most important money you spend each year. Shouldn't you take the time to consider how you spend it?

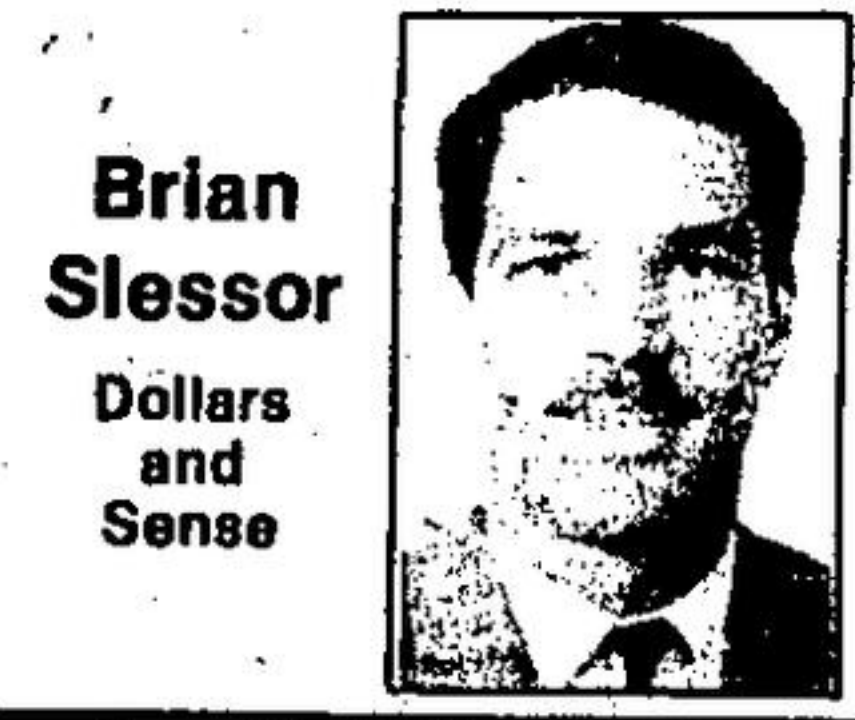
Many people fail to realize that not all RSPs are alike. In fact, there are several different kinds.

Deposit-type plans are offered by many financial institutions. Deposit RSPs are like a savings account; your principal is guaranteed and returns are usually low, varying with the general level of interest rates. This type of RSP is best for very conservative investors or an investor who is looking to park cash for a period of time while awaiting improved interest rates or emerging opportunities in the stock market. Deposit plans also invest in term deposits and GICs which are guaranteed and offer locked-in rates which are usually higher than for savings deposit RSPs. The drawbacks are that you usually require a set minimum deposit and that a penalty is charged for early withdrawal if that is possible at all.

Mutual fund RSPs offer professional management and a diversified portfolio to the RSP investor and are an ideal investment for smaller portfolios. You are not restricted to a fund that invests in stocks; there are also bond funds, balanced funds, real estate funds, money market funds and others. Mutual fund RSPs are available from banks, trust companies, investment dealers, mutual fund sales organizations and insurance companies.

Self-directed plans allow the investor to construct his or her own RSP portfolio by choosing from a wide range of investments. Usually it is wise to have at least \$10,000 in RSP funds accumulated before you set up a self-directed plan to allow for proper diversification and to justify the administrative fee charged by most financial institutions for these plans.

A self-directed RSP can be



Brian Slessor
Dollars and Sense

tailored to fit your needs because you can construct a sound portfolio designed to meet your needs and objectives, drawing from a wide range of investment choices.

Qualified investments range from GICs and government-guaranteed investments such as coupons, mortgage-backed securities and government bonds, to equities and mutual funds for growth.

A self-directed RSP gives you the flexibility to change the investment mix within your RSP portfolio to take advantage of changing market conditions. This ability to change can make a difference in performance and in the growth of your RSP assets over time.

When determining which of the three basic types of RSPs is best for you, you should consider the type of performance you require, your tolerance for risk and your level of interest and expertise. If you require maximum performance from your RSP, are willing to assume a little extra risk in return for the potential of enhanced returns without losing sleep at night and are interested in managing your own RSP portfolio (with the advice of a qualified financial professional), a self-directed RSP may be the answer for you.

If you are a very conservative investor and prefer to simply make a deposit and know the rate of return your funds will be earning, a self-directed plan can be tailored to meet that as well. The important thing is to choose a plan that meets your goals and that you feel comfortable with. For more information on self-directed plans, call Brian and ask for a copy of his free booklet "Successful RSP Investing".

Brian Slessor is an Investment Executive with ScotiaMcLeod. Any questions should be directed at Brian who can be reached at (416) 863-2825. If outside Toronto, please call collect.

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