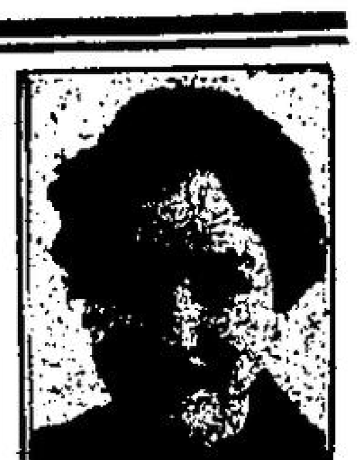
Money Matters

Optimists have chance to be right



Dianne Maley
Your Business
Thomson News Service

It is hard to be optimistic about the stock market, yet some Wall Street forecasters are. Their bullish predictions ignore the January effect, the notion that when it comes to stock prices, as January goes, so goes the year. Unscientific though it may be, the popular barometer does not augur well for stock prices. In the first three trading days of 1991, the Dow Jones industrial average lost more than 67 points.

This didn't faze the optimists, one of which is economist Ed Yardeni of Prudential Bache Securities in New York. Despite the recession, he still thinks the Dow Jones average will rise to 5,000 some time in 1993 rom 2,560 now. That would be a gain of nearly 100 per cent.

Another is Elaine Garzarelli of Shearson Lehman Hutton Inc. Like Dr. Yardeni, she thinks the New York market hit bottom Oct. 11 and is poised to take off. Ms. Garzarelli is worth listening to. She called the stock market crash of October, 1987.

VAIN HOPE?

How likely are these people to be right? Well, the optimists record over the past year has not been good. Dr. Yardeni did not foresee the swift, economy-wide recession that struck North America. As one U.S. forecaster put it, "the economy fell off a cliff in the fourth quarter." Also, both Dr. Yardeni and Ms. Garzarelli work for companies that sell stocks, so their soothsaying may be tinged with unwarranted hopefulness.

Still, because of their belief in laissez-faire capitalism, the two Wall Street forecasters have a good grasp of what is at stake in the current financial crunch. With the collapse of communism in Eastern Europe, Dr. Yardeni likes to boast that Adam Smith has won the day. Adam Smith, an 18th-century Scottish economist, is the intellectual father of the free-market economy.

But if the current recession triggers a financial panic, or if the slowdown turns out to be deeper and longer than government policy-makers expect, Adam Smith and the market economy could be thrown out the window. Laissez-faire capitalism could follow communism to the grave. A new, more regulated economy would take its place. Given the high stakes, the optimists have a fair chance of being right, at least for now.

If they are, an impressive amount of money stands to be mnade in the stock market. Ms. Garzarelli thinks the Dow will climb to 3185 this year, for a gain of roughly 25 per cent. Two things have to happen first, she told the Financial Times of Canada. The uncertainty in the Persian Gulf will have to be favorably resolved. And the Federal Reserve Board, the American central bank, will have to ease its grip on monetary policy once more.

STRONG CALL

In the meantime, the stock market could continue to drift sideways, she said. Even so, "anything below 2500 is a gift." She has put her money where her mouth is, investing the $500 million (U.S.) portfolio she manages in stocks. The two other times she plunged confidently into the market were in 1982 and 1974.

Which groups will outperform the market? "Leisure, newspapers, airlines, truckers, semi-conductors (electronic components) and home builders," she said. In the past, these groups have risen by 120 per cent from their cyclical lows.

"If you bought those groups right now, you'd be buying them 35 per cent below the equivalent Dow level. So, even if the market has this little correction, you're not going to get hurt much in these industries. You'll be gaining 60 per cent to 100 per cent over the next year," she said.

Some words of caution. The forecasters are talking about the Dow Jones industrial average; Canadian stocks may not perform as well. As for timing, it may be prudent to wait until the Persian Gulf crisis is resolved, if indeed it is.

Basic financial 'facts of life'

IT'S YOUR MONEY
Paul J. Rockel

We've said it before, and we will continue to repeat some of the basic financial "facts" of life.

The basic formula for financial success is: "Time" plus "Money" plus "Rate of Return". We find this formula written in a book "The Working Life of a Dollar" by Sam Shannahan Jr.

What most people don't realize is one of those three elements is far, far more important than the other two. All of them are very important, and in relation to one another, help build a sound financial future.

But...by far the most important element is Time.

A friend of mine illustrated this to me the other day, with a question. He asked: "Supposing there were two twins, each 18 years old, working, and one decided to save $2,000 per year (at 15 per cent, which has proven to be available through mutual funds), for eight years, and then quit saving but left the dollars until age 65. The other twin only started saving at age 26, and saved $2,000 per year, right through to age 65.

"Who would have the most value at age 65?" was the question.

Would you know?

My guest (because I know the formula T plus M plus R with "T"...time...being the most important) was "the fellow who started saving early, but for only eight years."

"You're right," he said. "Why don't you go home and work out the figures!"

I did.

I was absolutely amazed. The young twin, who started saving at age 18, saved a total of $16,000 over the next 8 years. My calculator tells me that $2,000 per year times 15 per cent times 8 yhears gives me a value of $31,571.68. (Work it out on your c a l c u l a t o r, and see if you get the same.) By this time the young twin would be 26 years old. If he left that $31,571.68 to work at 15 per cent through to age 65 (without adding another penny), he'd end up being worth $7,353,828. I couldn't believe it. I worked it out three times, and then took another calculator and reworked it. The answers were all the same. He'd saved $16,000, but now it was worth over $7 million, at age 65.

What about the other twin? He started saving $2,000 per year at age 26, and did so for 39 years (at 15 per cent). He saved a total of $78,000, but his value was $3,556,180. His value was $3.5 million less despite the fact he had saved $62,000 more.

What is the "secret" that created over double the value, despite the fact that $62,000 less was invested? *It's time.* For Twin No. 1, the first $2,000 (at age 18) worked 47 years, the second $2,000 worked for 46 years, etc. and when he stopped saving at age 26, the total value ($31,571) worked another 39 years. Twin No. 2, on the other hand, had his first $2,000 working only 39 years, etc.

What if the twins had both just used a savings account at 10 per cent for their savings. No. 1 would have had a value of $1,035,159 (vs. $7,353,828 at 15 per cent), and twin No. 2 who saved for 39 years, would be worth $883,185 (vs. $3,556,180 at 15 per cent).

Time...plus...Money...plus...Rate of Return. The magic formula for financial success. All three ingredients are important, but TIME is by far the most important.

Whether you are 17 or 70, start saving (and investing) today. You cannot buy yesterday back.

For more information, 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.

Different types of RRSPs

By ISABEL WEGG, CLU

Once again we're being flooded by advertisements urging us to buy RRSPs. It's that way every January and February as financial institutions of all types trumpet their post-Christmas glad tidings of tax deferral and retirement savings.

The message: "You have until the end of February to make an RRSP investment that can be deducted from your 1990 taxable income. Don't delay. Act today."

The reminders are timely. The advice is good. Every income-earning Canadian should at least consider the tax and retirement benefits available through RRSPs.

All RRSPs are the same in two respects. They reduce our immediate income tax burden, and they provide a tax shelter for our savings to accumulate for future retirement, free from the taxman's bite. The tax savings can total many thousands of dollars over the years, depending on your tax bracket.

However, in other ways, RRSPs are as different from each other as chalk from cheese. One will invest your money at prevailing interest rates. Another will put it into stocks or bonds. Yet another offers a mortgage or real estate fund. There are many different types, some offering income and safety, others growth and higher risk.

It pays the RRSP buyer to choose carefully among them. Long-term results can vary by tens - of thousands of dollars. They can make the difference between afluence and continuing financial struggle in old age.

Chances are you're too preoccupied with your career, your family and your other interests to do the research you really should do before buying an RRSP. That's why I recommend you get professional advice from someone who knows about these matters - a life insurance agent.

In the privacy of your home or office, your agent will review your finances and retirement objectives with you and help you make a knowledgeable RRSP choice, all without obligation.

Your agent can explain the many types of plans available, from those of banks, trust and fund companies, to those of life insurers.

You'll find out the advantages and disadvantages of each, including how to creditor-proof your plan and how to get a retirement annuity at reduced rates through a life company RRSP.

If you want to do some homework in advance of meeting with your agent, contact us for a free booklet called "Planning for a Successful Retirement."

You can obtain your free copy by writing to: Planning for a Successful Retirement, c/o The CLHIA Information Centre, 20 Queen Street West, Suite 2500, Toronto, Ontario M5H 3S2.

You can also reach us toll-free from anywhere in Canada by dialing 1-800-268-8099, or 977-2344 in the Toronto area.

Isabel Wegg, CLU, is vice-president, communications, of the Canadian Life and Health Insurance Association. The CLHIA represents virtually all of Canada's life and health insurance companies, and is the central source of statistical and other information about the industry. This column is produced as a public service by the CLHIA.

Reading between the lines

REAL ESTATE AND YOU
Jamie Johnston

—How many times have you found yourself roaming through the classified ads, not actually in search of that unbelievable purchase but rather just to see how vivid your imagination could really be? The real estate section provides a great opportunity for the reader to test his/her imaginary skills. Unfortunately, it also provides the realm for many agents to explore their literary expertise. Rather than revealing their creative talents, they often display their inability to communicate.

We've all read the classics "handyman special" and "close to transportation" (meaning backing on to the railway tracks or a four lane highway). Does "It won't last long" mean that the house is about to fall apart? I can't see that attracting anyone. Another classic is the headline "Owner Must Sell". I thought salespeople were supposed to work on behalf of their vendors.

In essence, classified ads are supposed to be the method of communication through which potential buyers gain the necessary initial information on various properties. Buyers need to know the specific price or price range, the neighbourhood or area and the number of bedrooms. All other information is secondary at that particular point in time.

Rather than relentlessly searching through the classified ads yourself, you may consider looking for a good salesperson who can in turn look for the good buy. The salesperson earns their money via their ability to identify buyer needs and then match these to what's available in the market place. It makes more sense to have the salesperson running around while you view the best 3 or 4 homes available.

There's no obligation to you while you're looking, so why not take advantage of the services of an expert.

For a free copy of our "How to Buy a Home" brochure call or visit a Canada Trust Real Estate branch near you.