Money Matters

Mutual funds investment suggested

IT'S YOUR MONEY
Paul J. Rockel

Many prospective investors are scared away from the investing in equities or common stock of corporations because of the fact that these shares are traded on the stock market, with all of the perceived risks involved. With the "crash" of October 1987 and the more recent sharp decline due to the crisis in the Gulf still fresh in their minds, they look for safer, more conservative investments. The answer to their financial planning needs is likely to be mutual funds.

Consider the following story. In the summer of 1987, investors lost millions of dollars when the Edmonton based financial empire of The Principal Group collapsed. Many investments such as eligible deposits and investments (including RRSP's), which are usually insured up to a maximum of $60,000 by the Canada Deposit Insurance Corporation (CDIC), were not covered.

However, investors who had mutual funds managed by The Principal Group escaped with their money intact even though mutual funds, like stocks and bonds, are not eligible for CDIC protection. When Principal collapsed, a life insurance company took over management of the fund. It was business as usual.

This is one of the attractive strengths of mutual funds. If the manager of a mutual fund gets into financial hot water or even goes bankrupt, the investor's money is still protected. In the case of the Principal failure, new managers picked up where the previous ones left off.

With mutual funds, managers do not own mutual fund shares, the investors do. That is the heart of mutual funds' security. Other assets, cash, stocks, bonds, and securities are held by a custodian institution, usually a bank or trust company. Managers buy and sell securities, but these assets are not acquired for themselves. Since the funds portfolio of investments belong to the investors, the fund managers cannot claim these assets as part of their company. As well, the managers cannot use these assets to support their own company.

Investors may wonder how their investments are managed. Open-end funds, which allow investors to invest or withdraw their money at any time, are usually run at corporations, trusts or .... as in the case of insurance companies as variable life policies. For tax purposes, mutual fund trusts pass to investors all Canadian dividends, interest, capital gains and foreign income less expenses.

Likewise, mutual fund corporations also pass on to the investor all dividends and capital gains, but are not allowed to forward interest and foreign income since they are taxable in the hands of the fund. However, mutual fund corporations can cut their liability by charging expenses against this interest and foreign income.

Accountability is another attractive feature of mutual funds. Mutual fund corporations must hold annual meetings. Although mutual fund trusts are not required to do this, they still must issue detailed annual and semi-annual reports. Some issue quarterly statements. Fund prices are published daily in the major newspapers.

This arms' length relationship between managers and their mutual funds is one of this investments strengths. Not one dollar of investors money has ever been lost because of management bankruptcy. That is one of the reasons why hundreds of thousands of investors choose mutual funds.

But is security costing you money? A totally-insured guaranteed investment certificate may earn between 9 and 12 per cent per year. However, the rate of return of many mutual funds is often considerably higher, some have averaged 15% per year over time. If held outside of an RRSP it is a more attractive investment after tax. Over the long term, mutual fund investing can be much more profitable.

There may be some risk in the underlying investments in a mutual fund due to short term market fluctuations. But ask any former client of The Principal Group ... in the long run investing in mutual funds may be better than "money in the bank."

For a free booklet on RRSP investing and a chart comparing the performance of an actual mutual fund with a 10% investment over the last 23 years, contact Peter C. Mason, 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 In Invest in Mutual Funds" and President of Regal Capital Planners Ltd.

War does not bring prosperity

By DIANNE MALEY
Thomson News Service

Popular wisdom is often not wisdom at all.

Take the notion that war brings prosperity. This may be true in a war of conquest, where the winner seizes the loser's wealth; the way Iraq seized Kuwait's treasury and oil fields, for example. Germany no doubt would have prospered had it conquered the world.

But a war where no spoils are won, like the Second World War, the Korean War or the Vietnam War - and the war in the Persian Gulf - bleeds a nation's resources.

Wait a minute, you say. Didn't the Second World War pull us out of the Great Depression? Not exactly. To think that war is good for the economy is "idiotic," says Philip Cross, chief of current analysis at Statistics Canada in Ottawa.

"I fail to see how blowing up your human and physical capital can ever be good for you," Mr. Cross said in a recent interview with The Globe and Mail. I asked him to explain.

SPENDING KEY

"Government spending led the economy out of the depression," he said. "One of the ways government can spend money is war. It's not the most productive way."

One need only think of recent events to realize that war does nothing for the national budget balance. Government agencies and departments have had to trim their spending to help finance Canadian presence in the gulf. If war breaks out and is prolonged, it would add to the federal deficit.

There are millions of ways government can spend money on people, Mr. Cross pointed out. "Killing them off is not the best way."

Part of the reason we think war brings boom times is that wars are inflationary. Inflation, as we are learning, is illusory wealth. During the Second World War, the federal government managed to contain inflation by forcing people to buy bonds. Had it not done so, inflation would have skyrocketed and the boom turned to bust.

As well, the economic effects of war depend on the war itself, Mr. Cross said. "The Second World War did not cause oil prices to double."

It was not war but government spending that brought the depression to an end, he said. Other initiatives would have done the same thing. "Digging ditches, filling them up again, all this would have helped without the long-term cost of blowing up human and physical capital."

Today, prosperity is nowhere in sight, the Statscan economist said. "I can't find anything good to say about the economy at the moment."

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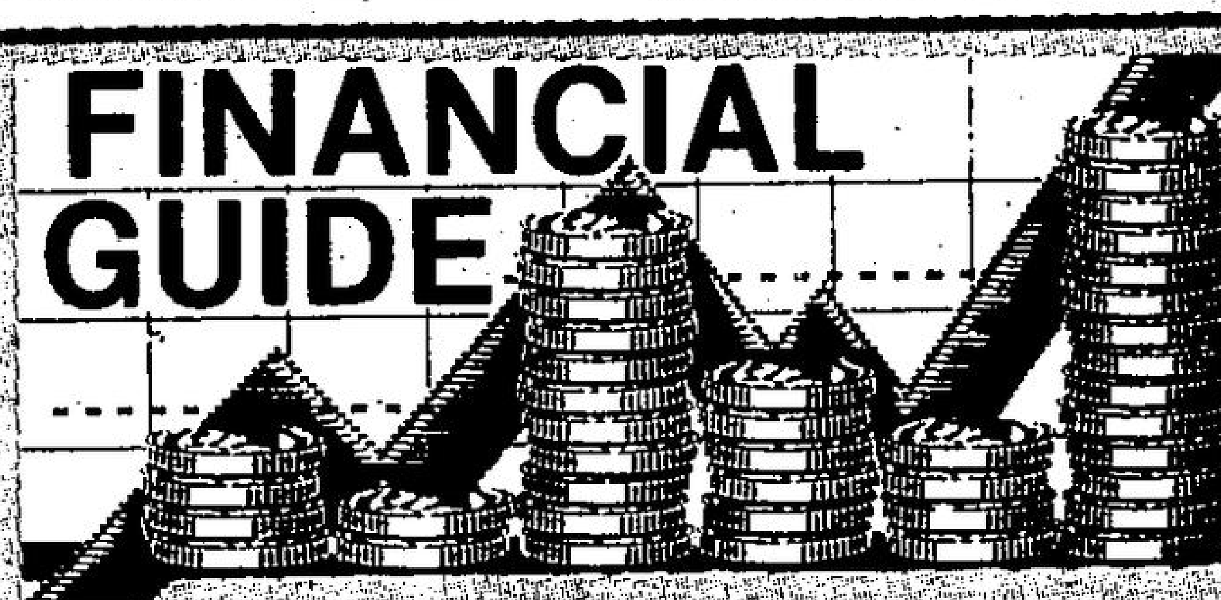

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Q. I'm a bit confused. I thought the goods and services tax credit was supposed to replace the federal sales tax credit, but looking at my 1990 tax return package, I see that there are forms for both credits. Which form should I complete?

A. You should complete both forms. 1990 is the last year for which you may claim the federal sales tax credit. The calculation is performed on Schedule 7. In addition to this form, you must also complete form T1 GSTC and file it with your 1990 return in order to receive the goods and services tax credit that will be paid in instalments in July 1991, October 1991, January 1992 and April 1992. If, with your 1989 return, you did not apply for the goods and services tax credit payable in respect of the first part of 1991 and you qualified for it, it is not too late to do so.

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