Trying to beat the market a frustrating challenge

By PAUL J. ROCKEL

IT'S YOUR MONEY
Paul J. Rockel

Trying to "beat the market" to make a financial killing is one of the most frustrating challenges which investors face.

Playing the stock market as if it is a Las Vegas casino is a crapshoot. Why try something that confounds even the experts? You either have to be a clairvoyant or extremely lucky consistently.

Soothe your nerves. Try another, more sensible strategy: dollar cost averaging.

This strategy calls for the investment of a fixed amount of money in mutual fund shares at regular intervals during a specified period of time. By following this strategy, investors will actually lower the average cost of their periodic investments.

The principle of dollar cost averaging is simple: As the share's values rise, investors buy fewer shares. As the value falls, investors buy more.

For example, suppose you decide to invest $100 a month in a mutual fund. When you start, the fund's shares cost $10 each. So, your $100 buys you 10 shares. During the next four months, the fund's price per share rises from $10 to $11, then drops to $9 and later to $8. At the end of these four months, you will have 42.7 shares, or 2.7 additional shares than if you had invested a lump sum of $400 to buy 40 shares all at once.

The beauty of dollar cost averaging is that investors don't have to worry about market timing. They are buying shares consistently, whether the market goes up or down. It also eliminates the temptation to stop buying when the shares drop in value or to go wild spending when shares start rising. You become detached, oblivious to market shifts. Like the classic advice says, you are buying low and selling high.

By taking advantage of dollar cost averaging, the average cost of all the shares investors have bought is less than the average prices of those shares when the investor bought them.

The lower average cost will improve the investor's position even more, and also provide him/her with capital gains.

For example, let's say you invested $100 a month for only six months. Since the share price in the first month was $15, you bought 6.66 shares. During the next six months, the price swung up and down, reaching as high as $16 and falling as low as $11, then returning to $15, as you can see in the following table:

Month	Share Price	Shares Bought	Investment	Total Value
1	$15	6.66	$100	$100
2	$13	7.69	$100	$186.58
3	$14	7.14	$100	$300.90
4	$12	8.33	$100	$357.88
5	$16	6.25	$100	$577.12
6	$15	6.66	$100	$641.05

Average Price	Total Shares	Average Cost Per Share
$14.16	42.73	$14.04

As you can see, your investment grew by $41.05, for a gain of 6.8 per cent. If you made a single $600 investment, you would have about broken even after six months. By using dollar cost averaging, you have come out ahead.

However, to really benefit from this strategy, you must invest for the long term. What is interesting is that investors benefit more using dollar cost averaging during a time of falling share prices than one with rising prices.

So, what are you waiting for?

In the long run, you could be a big winner.

For a free chart illustrating how Dollar Cost Averaging can affect your investment returns, 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.

The Herald is seen by ALL of Halton Hills and is the only newspaper to give the readers one complete news and advertising package, featuring local stories about local people and events which concern our community. If you want your business to be seen by everyone give our display advertising department a call. Our professionally trained representatives can answer all your questions!

877-2201

The Halton Hills HERALD

Shop around for best mortgage rate

By DIANNE MALEY
Business Analyst
Thomson News Service

Your Business
by Dianne Maley
Thomson News Service

Last week, we said that the recession was over, although it may not be apparent yet. Inflation has been beaten and interest rates will follow inflation down, we predicted.

This week, right on cue, bankers cut their prime business lending rate to 10.75 per cent. Sounds good, doesn't it? But let's put things in perspective. This latest cut takes the key lending rate back to where it was in the summer of 1988. While the news was welcome, interest rates are still high by historical standards.

Homeowners with mortgages have little reason to celebrate. By the time you read this, the one-year mortgage rate may have slipped below 11 per cent. But the key five-year rate still is stubbornly high. As I write, it is 11.5 per cent. Even if lenders pare it by half a point, it would still be high.

Remeber, it was 10 per cent as recently as March, 1987.

THEY HAVE REASON

Back in January, I expected the cost of five-year mortgage money would fall to 10 per cent by this summer. Now I don't think it will. For one thing, lenders are burdened by bad mortgage loans. For another, real estate sales in some parts of the country are hitting record highs.

In Vancouver, for example, 4,275 houses changed hands in March. That was the busiest month in the 40 years that the Vancouver Real Estate Board has been recording sales. Apparently, the recession has had little effect on Vancouver.

Inexplicable though this behavior may seem to observers in glum Toronto, it will not go unnoticed by the men who hold the money reins, Finance Minister Michael Wilson and the governor of the Bank of Canada, John Crow. Lenders also are not likely to want to encourage strong demand for mortgage loans.

So while the party may be roaring on the West Coast, I suspect the money men are about to take away the punch bowl. Look for a levelling off in longer-term mortgage rates until mid-summer, when they could fall a bit further.

"So what if the five-year mortgage rate is stuck at 11 per cent?" you might say. "I'll take a one-year loan. It's a lot cheaper." Perhaps. What is not so clear is which route will be cheaper over five years - a rate fixed for the full term, or one that fluctuates from year to year.

MORTGAGE ROULETTE

If you believe that sooner or later, longer-term rates will come down, you might prefer an open mortgage, even though it will be more expensive than a closed one. Most lenders are charging three-quarters of a percentage point more for a one-year open mortgage.

But if you believe inflation will prevail over the government's efforts to vanquish it, you may decide to lock in for a longer period of time. Unfortunately, no one can know the future.

A word of caution. When pondering inflation, disregard the booming Vancouver real estate market. Disregard also the recent sales resurgence in southern Ontario. Chances are the glee will be short-lived; either it will die naturally or policy-makers will kill it.

Optimist argue that inflation is under control. Pessimists argue just as eloquently that it is not. Only time will tell. In the meantime, you have to renew your mortgage. The best thing to do is choose a term and a monthly payment that you feel comfortable with.

H&R Block stands behind its work.

We guarantee your satisfaction. And our experience in preparing complete and accurate tax returns will give you peace of mind.

H&R BLOCK®

Canada's Tax Team.
Put us to work for you!

Under New Ownership In A New Location

7 JAMES STREET
(Off Main St.) Downtown Georgetown

873-7855

GUELPH ST.

DON'T TAKE YOUR BUSINESS TO THE STREETS

LET YOUR CUSTOMERS KNOW YOU'RE IN BUSINESS

We have everything you need . . .

•BANNERS •WOODSIGNS •BILLBOARDS •ENVELOPES •LABELS •ENGRAVING •CUT OUT LETTERS •POSTERS •VEHICLE LETTERING •PLEXIGLASS •CUSTOM SIGNS •SILK SCREENING •AIRBRUSHING •LOGO DESIGNS •HATS, BUTTONS, T-SHIRTS •PENS/MAGNETICS •WINDOW LETTERING •REAL ESTATE SIGNS •SANDBLASTING •NEON/ELECTRICAL •BUSINESS CARDS •CUSTOM GRAPHICS •DO-IT-YOURSELF KITS

ONE WEEK ONLY

250 BUSINESS CARDS FREE

Buy 250 Business Cards at regular price & get 250 Business Cards Free

Prices start as low as $27.00 per 250 cards

The Sign Shoppe Corp.

"Your Complete Advertising Centre"
61 SINCLAIR AVE.
GEORGETOWN
877-0955
FAX — 877-9669