Money Matters

Mutual funds can represent a lifetime investment

By PAUL J. ROCKEL

While in Calgary a few years ago, I was asked to participate as a guest on a local TV show that deals with financial matters and investments.

As the "guest" I was being interviewed by the host of the show plus a stockbroker and another financial executive.

Wouldn't you know it. The first question asked by the stockbroker was, "Isn't there a front-end fee involved in the purchase of mutual funds?"

Ouch! Some people in the mutual fund industry find it "difficult" to answer that question. But I don't.

It was answered truthfully. "Yes, there can be a so-called front-end load or fee on mutual funds. The maximum is as much as 9 percent, and that fee is reduced as you invest more, or invest larger amounts. Usually it is around 5 percent, but could be 9 percent.

There are also many funds available now with no front-end load or fee, instead there is a redemption fee that reduces to nothing in five or 10 years. With some funds you can have your choice of front load or no-load with a reducing redemption fee.

Mutual fund companies try and make it as easy as possible to invest.

When my turn came to ask a question, I turned to the broker, and asked, "How much does it cost to buy stocks through you?" The answer I was given was about 3 percent on each transaction. My reply went some thing like this. "In other words, if I were to purchase $10,000 worth of stocks from you it would cost me 3 percent or $300. If that purchase were a wise one and it increased in value to $11,000, and I decided or you advised me to sell it, it would cost me $330. Now, if I decided to reinvest that would cost me another $330 to reinvest

in a different stock(s). Supposing it did fantastically well and rose to a value of $15,000, now it would now cost me $450 to sell it and if I wanted to reinvest it in other stocks, another $450.

In having made just three stock purchases and two sales, (I haven't sold the third yet) I have paid $1860 in "fees" and am looking at ongoing fees as I buy and sell and attempt to make a profit.

But in a mutual fund, the maximum I could pay on a $10,000 investment would be $900 and that money could be working for me for the rest of my life, managed by experts on a full-time day-to-day basis, who would be buying and selling securities whenever necessary, and I would never have to pay another "fee".

Which would you rather pay? The stockbroker $1860 and have continuing costs, or a maximum of $900 (more likely $500 on a $10,00 investment) and have a lifetime investment?

I also pointed out that "I can't afford the costs of a Guaranteed Investment Certificate or Term Deposit."

Reason: Everything in life has a "cost". My banker admits to me that the bank has to earn at least 2 percent per year more than they pay me as a depositor or holder of a Guaranteed Investment Certificate or Term Deposit. (In many cases their mark-up on the money is a lot more than 2 percent.) After all with that profit they must pay rent, employees, taxes, utilities, janitors, etc. So if I look up my savings for 5 years, at 2 percent per year, that's 10 percent over the five years.

So... that 10 percent cost is there, even if it is "hidden". And if I decide to renew for another 5 years it is going to cost me another 10 percent, and the next 5 years another 10 percent, and the next..., etc.

That's to say nothing about the much heavier taxation that people who earn interest are subjected to as compared to dividends and capital gains in mutual funds and stocks.

I'd rather pay up to 9 percent once, and have a lifetime investment than a hidden "10 percent every five years" on a term deposit. That's why we say the fee on mutual funds is "cheap".

For a free tax comparison sheet on interest, dividends and capital gains contact Peter C. Masson, 10 Fagan Drive, Georgetown, Ont. 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 Limited, a 21 year old financial planning company with offices from coast to coast in Canada.

New Seniors program launched

FirstLine Trust, Toronto, in cooperation with C.A.R.P. (Canadian Association of Retired Persons), has developed a Reverse Mortgage called "Home Equity Pension Plan" designed for C.A.R.P. members. Ivan Wahl, Chairman of FirstLine Trust announced that FirstLine Trust is the latest of a select group of very few financial services companies in Canada meeting the growing demand for the Reverse Mortgage.

FirstLine Trust, soon to be a Manulife Financial Company, has developed the HEPP in answer to this problem for seniors.

"The FirstLine Trust HEPP has been designed so that homeowners can live in their homes and actually spend some of their equity. Seniors can receive regular tax free payments for the rest of their lives, for a fixed term or as a lump sum to help them enjoy their retirement," stated Mr. Wahl.

The HEPP is currently being offered in major urban cities across Canada, excluding Quebec and New Brunswick. The minimum advance amount is $25,000, and FirstLine will not be charging any fees. The customers will only be responsible for paying their own legal costs associated with the HEPP and these fees can be added to the amount of the advance.

This new program is just one of the many money-saving benefits available to C.A.R.P. members, which now number 65,000 across Canada. Membership in C.A.R.P. is only $10. per year, or $25. for three years, and includes spouse. To join, please send cheque or money order, name, name of spouse, age, address, including postal code, and phone number to C.A.R.P. 27 Queen Street East, Suite 1304, Toronto, Ontario, M5C 2M6.