Is your money safe?

IT'S YOUR MONEY

Paul J. Rockell

Many prospective investors are scared away from 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 sharp decline due to the Gulf War and the dip caused by the recent currency and constitutional uncertainty 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. Some investments such as long term 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. Eligible term deposits of 5 years or less were covered. However, it took quite a long time for those investors to get their money, and in the meantime, the interest stopped.

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. The mutual fund assets were held outside of the Principal Group by an independent Trustee. When Principal collapsed, another financial 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 hotwater 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 hear 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 fund's 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-ended funds, which allow investors to invest or withdraw their money at any time are usually run as 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 arm's 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 6 and 8 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 "Reducing Taxes and Investing in Your Future at the Same Time", contact Peter C. Masson, M.B.A., Regal Capital Planners Ltd. 10 Fagan Dr., Georgetown, Ont. or phone 877-7216.

Paul J. Rockel is the author of the best seller "Why I Invest in Mutual Funds" and Chairman of Regal Capital Planners Ltd., a 24 year old financial planning company with offices from coast to coast in Canada.

Beaver Leader Brenda Basinger had the pleasure of watching her twin sons Simon and Paul Sharples invested into the First Acton Beaver Colony last week during a ceremony last week.