Many financial advisors don't know about this program

Recently, I reread an article I had clipped out of the Financial Post. It was a column titled "Your Money, Questions & Answers" and there was a letter from a reader under the heading "Mutual Fund Return Rate".

The question from the reader was: "I expect to retire shortly and want to invest in something that earns annual income. I'd like to put some of my money into deposit certificates and some into mutual funds. But I don't understand what is included in "rates of return" figures in the Financial Post's monthly mutual; fund performance tables. Also please tell me whether the only way to earn capital gains on a mutual fund is by selling out"

The writer of the column responded by indicating the returns shown were including all dividends and capital gains reinvested. The advice went on to say that "generally all capital gains and dividends are automatically reinvested on your behalf in additional units of the mutual fund. But you can also ask for them in cash. You can of course, also receive capital gains by asking the mutual fund company to redeem your mutual fund units at their net asset value."

The advisor was correct, but, what an opportunity to tell people about what I call "the most fantastic program ever invented in the financial world". It's called a mutual fund withdrawal program, and unfortunately a great majority of financial writers and advisors either don't know it exists, or if they do know, they don't understand how it works.

In simple language, a mutual fund withdrawal program (they've only been around for over 50 years) pays you a monthly income (of your choice) every month by selling units of the fund to pay you the capital gains. In effect the income is largely tax free if you still have the $100,000 capital gains exemption available to you. The tax and inflation protection comparison of this plan with the taxation of interest income is something that everyone should be aware of.

Let's look at an example: In Jan 1972 if you had placed $100,000 into a mutual fund called Templeton Growth Fund and taken out a monthly income (increased each year by the rate of inflation) starting with 9% of the value of the fund or $750 per month in 1972, today because of inflation that monthly income would be $2875 per month. The amazing thing is that over the 20 years you would have received $423,725 and the value that you would have left in the fund would be $899,031. (yes, that's almost a million dollars left)

If you had placed the same amount in an investment paying 12% interest you would have received $240,000 in income (all of which is taxable), but all you would have left is the original $100,000. Furthermore that $12,000 per year income in 1971 would only buy $3,152 worth of goods and services in 1990 dollars. Inflation has robbed you of the rest.

Which would you rather have in 1990 dollars ... $1000 per month or $2855 per month.

For a free table illustrating a Monthly Withdrawal Program contact Peter C. Masson, 10 Fagan Drive, Georgetown, Ont. or phone 877-7216.

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Money Concepts located at 348 Guelph Street, Georgetown, would be happy to help you with all your financial requirements. Left to right: George Purdue, Karen Purdue and Brett Worby can be reached at 873-1877.