The **KEY** To Your Financial **SUCCESS**

Investors ponder:

RRSPs or Mutual?

Interest rates are at their lowest levels in nearly 30 years, and that has many RRSP savers in a quandry. Guaranteed Investment Certificates, a popular choice for registered retirement savings plans, pay only about three per cent to four per cent today. After years ago, GICs paid 11 per cent.

"If you limit yourself to GICs, you are faced with today's low rates" says John Wiltshire, vice-president of Investment Products marketing at Investors Group. "But a well-designed investment plan, which would likely include mutual funds, can produce good long-term results and peace of mind."

Mutual funds receive money from many investors. The professional fund managers use that cash to build diversified portfolios holding shares of Canadian and foreign companies and/or a variety of interest-bearing investments (as determined by the fund's objectives). Diversification within the funds helps reduce overall risk.

There are various types of funds,

- Money market funds are a higher-yielding alternative to savings accounts. They invest in short-term notes, most often government treasury bills, and face little risk of capital loss.
- Bond funds invest in government and corporate bonds. Mortgage funds invest in high-quality residential and commercial mortgages. Unit holders of these "fixed-income" funds receive interest from the underlying investments. They also benefit when falling interest rates increase its value of the portfolio.
- Stock market funds are also known as "equity" funds. Some invest only in Canadian stocks. Others invest in American companies. Some specialize in regions like the Pacific while others invest all over the world.
- Balanced funds hold both stocks and bonds, and might include other asset groups like real estate. Fund managers vary the mix as economic conditions change.
- There are also specialty funds that invest in only one sector. For example, real estate funds own office buildings and shopping centres. Ethical funds, invest in socially responsible companies and avoid companies involved in such things as tobacco, alcohol, gambling, weapons or pornography.

No investment is risk-free. If you choose to stick with GICs, Wiltshire offers this advice:

- Stagger maturities. Spread your money equally over all the normal terms, one year through five. Next year, reinvest the maturing one-year deposit along with new contributions in a new five-year GIC. This strategy will average out the interest rate wave, because about one-fifth of your plan comes due each year.

If you don't need the income, buy GICs to secure your capital but arrange for the interest on the GIC to be paid monthly. Then re-invest that money in equity mutual funds for extra growth and to take advantage of dollar cost averaging.

10 RRSP investment strategies

It's the season when thousands of Canadians are caught up in the last-minute rush to contribute to their Registered Retirement Savings Plans (RRSPs) before the March 1 deadline.

Avoid the frustration of last-minute decisions by taking the time to assess your position and adjust your investment strategy. Some important steps you can take to get the most out of your RRSP, is provided by Investors Group, one of Canada's financial services companies.

1. Contribute early. Make your contribution as early in the year as possible. Tax-deferred compounding makes those early dollars grow dramatically.

2. Contribute the maximum. Take advantage of the magic of compounding and get the maximum tax break by contributing to your limit. Remember, while you can "carry forward" any unused contributions to subsequent years (indefinitely), you can never replace lost growth opportunity.

3. Invest monthly. Many investors find it easier to reach their annual RRSP maximum by making contributions every month. You may find it easier to have the RRSP contribution automatically deducted from your account each month,. or you may choose to belong to a group RRSP through your employer by payroll deduction. Remember, it's a good idea to increase your monthly contribution if your income rises.

4. Borrow if you have to. Don't let tight cash flow deter you from borrowing to top up your contribution. Although you'll pay interest on the amount borrowed, the compound growth of your money over the long term can far outweigh the interest cost. Plus you can use your tax refund to pay off the substantial portion of the amount borrowed.

5. Invest in a spousal RRSP. A spousal RRSP allows the partner with the higher income to contribute to an RRSP in the name of the lower-income partner. The spouse with the higher income takes the immediate tax deduction, but the money in the RRSP will be taxed in the other spouse's hands, usually at a lower rate, when it is withdrawn. This is an excellent way to income split in retirement and reduce your combined tax rate.

6. Diversify. Different types of investments react differently to economic events. By diversifying your portfolio and holding investments of all types, you protect yourself against the day-to-day fluctuations in any one category. To achieve long-term growth you must diversify. Some investors limit themselves to fixed-income investments, but inflation can have a corrosive effect on conservative investments. Consider diversifying into growth-oriented securities - such as equities and equity mutual funds - to earn returns that may far outstrip the rate of inflation.

7. Increase your foreign content. Currently, you're allowed to invest up to 20 per cent of your RRSP in foreign holdings. The advantage? Investing outside Canada taps you into the other 97 per cent of world markets, giving you additional opportunities for growth and diversification.

8. Consolidate your investments. If you are the type of investor who doesn't want to spend a great deal of time managing several plans, you may want to consolidate your investments into one portfolio. Yes, you should have a balanced variety of holdings working for you, but you can combine them under one RRSP umbrella. This strategy also means you will get one consolidated statement (which may make it easier to track your plan).

9. Designate a beneficiary. Consider designating someone to whom the plan assets should go in the event of your death. Without a designated beneficiary the account will go through your estate and be subject to probate and other fees. You should talk to your financial advisor about the tax and other consequences of designating a beneficiary to your RRSP.

10. Get expert help. The services of a personal financial planner are essential to help you make the right long-erm investment decisions.

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