

# Curtain Opens on the RRSP Season.

The RRSP is a uniquely Canadian institution. If I ask my brother or sister (both of Scottish birth who live in England) if they have done anything about their RRSP's before the March 1st deadline I would be greeted with blank looks. To them, an RRSP could be anything from a *Ready Roasted Spring Pullet* to a *Recently Renovated Swimming Pool*. You see, the Brits are simply not into self-directed **Registered Retirement Savings Plans** preferring to leave this stuff to the government or the company for whom they work. In addition, a large percentage of NGO's (Non Governmental Organization's) in the U.K. provide their employees with a pension to which the employee and the employer each contributes a portion. What a good idea!

But I digress. For many people living in Canada the need to provide for their own retirement funds to supplement the Government pension is becoming more and more acute. It is also becoming increasingly difficult to make our money grow with bank interest rates at their lowest for a long number of years. The Daily Interest Savings account and GIC used to be the much favored means to savings for years and over 10 years ago offered interest rates in the range of 7 to 10%. At this rate capital growth was good. With 8% interest rate your money would double every 9 years, and for those able to save regular monthly or annual amounts the gains could be spectacular when measured over 20 or 30 years.

**Example: An initial deposit of \$1000 followed by monthly savings of \$100/month over a 20 year period at an average of 9% will yield \$69,490 (total deposits \$24,000 and interest earned \$44,490 = \$69,490)**

**Over 30 years, WOW!!! this becomes a massive \$183,479 showing that it pays to begin saving EARLY in life when we can make it a habit.**

With the gradual reduction of bank interest rates over the past 10 years we have been forced to find new places in which to save our hard earned cash to enable a reasonable rate of return on our investment. Shopping for better investment rates has become the norm and we even have a banking group doing TV advertising on their 'preferential' rates of return.

**(“Enters quickly from backstage”) The Mutual Fund.**

Well, that is not exactly true since Mutual Funds have been around for decades but until the last decade or so they have not been the investment of choice for the average Canadian. In comparison to GIC's or Savings Accounts, their concept is very different. Placing our money in a company (Mutual Fund) which would then, in turn, take our money, split it up, and place it in other companies who were called “Equities” was a new idea. Our \$1000 investment could well be split between 100 other companies who were “listed” on the stock market. To make it seem even more confusing a part or all of our \$1000 could finish up being invested in the shares of companies in Norway, Holland, India, Japan, USA or any of 100 other countries. Do we now feel that in order to understand the world of investing we almost need a University Degree?

**(“Leaping out to front-stage”) appears an “Investment Broker.”**

Fortunately for us and all other Canadians, this is a person who understands all of the intricacies of investing in all of its varied forms. When I made my first approach to one of these good Samaritans one of my first questions was, “how much will your advice and direction cost me?” Although I did not realize it at the time it was a very prophetic question. Back came the reply, “nothing.” Now I was really confused as I looked around a rather large prestigious office filled with oak and mahogany furniture.... hey, the desk must have cost more than I was thinking of investing that year! Someone somewhere was taking care of this person very well and as long as it was not going to be “my” money I did not really mind. This I quickly learned was not a right attitude since good advice is difficult to find. An investment advisor who can consistently make my money increase in both a ‘Bull’ and a ‘Bear’ market is a gem indeed.

On reflection I think I would have gladly gone along with the principal that “if you my investment advisor makes my portfolio grow by \$xxxx then I will pay you a percentage of \$xxxx. However, if my portfolio does not grow then we both lose!” But that is too radical an idea it seems.

Over a period of 2-3 years my investment advisor who was costing me ‘nothing’ managed to reduce my net worth instead of increasing it. When challenged about it my ‘expert’ reminded me that investments in Equities (Mutual Funds based on companies listed on the stock exchange) could both increase and decrease in value. “But over time Ian we will build you a nicely balanced portfolio.” At the rate of ‘bleeding’ which my portfolio was experiencing I would definitely be relying on Old Age Security unless a

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