

# MONEY Management

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Not everyone has the time to manage one.



At Ross Dixon Financial Services, we know what it takes to understand investment strategies, design a plan, and maintain your portfolio.

So we invest our resources in monitoring the financial markets, acquiring state-of-the-art technology and enhancing the talents of our Account Executives.

And we invest our time developing a relationship with you. You get the benefit of full time advisors who manage your portfolio 52 weeks a year - so you can spend your time enjoying your investments.

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Markham

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## GICs - an interest-ing strategy

With the RRSP deadline fast approaching, many people are now allocating time to look at their investment options. Finding the most suitable financial vehicle is a key component of successful investing. Some Guaranteed Investment Certificates (GICs) are currently featuring attractive returns

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and this is resulting in a great deal of attention from investors.

The objective of the GIC investor is to generate maximum returns while incurring minimal risk. Most purchasers of GICs experience an uneasy feeling when time comes to choose a term. Longer term certificates, such as five years, pay higher interest than do short-term certificates.

This higher interest compensates the long-term investor who sacrifices short-term liquidity. Nobody wants their funds locked up and inaccessible if rates rise, nor do they want to

roll-over a maturing investment when rates are low. While hindsight is always 20/20, it is impossible to accurately and consistently forecast the direction of interest rates.

There is, however, a strategy that combines the higher rates offered through long-term certificates and the liquidity that comes with short-term certificates. In addition, this strategy will eliminate the guesswork of interest rate timing and stabilize your return during interest rate fluctuations. All of this can be accomplished by staggering your GIC portfolio.

Suppose you have \$100,000 and you wish to employ this strategy for all of the above reasons. Divide the funds into five equal portions of \$20,000 and invest those portions for a one, two, three, four, and five-year term.

At the end of the first year the portion invested for a one-year term matures. At this time you roll it into the highest yielding five-year term. At the end of the second year you do the same, and so on. After four years you will have the entire GIC portfolio invested at five-year terms with 20 per cent coming due each year. You continue this as long as you like by renewing maturing five-year certificates for an

additional five-year term. Investors who are just starting a portfolio can still employ this strategy. They simply make their annual RRSP contribution to a GIC with a five-year term. They repeat this purchase every year. The portfolio will develop automatically to a series of staggered maturity dates.

This strategy is appealing because when interest rates fall, only a portion of your money is affected. Regardless of what rates do in the future, you can rest assured you did receive the highest rate possible every time.

Finally, you have 20 per cent of your money maturing and therefore becoming liquid every year in the event of an emergency or opportunity. This strategy is simple to set up and easy to administer (particularly in a self-directed RRSP).

To maximize your returns invest as early as possible in the year and shop around as GIC rates vary significantly between institutions. By eliminating the guesswork of interest rate timing, it ensures more enjoyable and profitable GIC investing.

*This article is courtesy of Robert Smith, an associate of Ross Dixon Financial Services, 137 Main Street N, Markham. For more information call him at 905-471-2311.*

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The Financial Post, January 17, 1995

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## RRSP TAX TIPS

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Contributing to an RSP might seem confusing with the flurry of activity and information coming at you at this time of year. Here are a few tips to focus on when considering your RSP investment strategy.

Monthly contributions to a RSP will earn you more! Set up a pre-authorized payment plan to contribute to your RSP on a regular basis rather than waiting until the last minute to make a once-a-year lump-sum contribution. By making pre-authorized monthly contributions to a RSP, you can earn more for your retirement as your investment starts earning tax-sheltered interest right away, and keeps compounding month after month. Contributing monthly is also an easier way to reach your annual RRSP contribution limit without borrowing.

Why wait for your tax refund when you can have it now?

If you make automatic, regular contributions to your RSP, you can ask Revenue Canada to reduce the amount of income tax deducted from your pay cheque. This way you can have more money in your hands right away. Simply see your financial institution for assistance.

Even more tax-sheltered income!

If you have made your maximum RRSP contribution every year since the 1991 tax year, and still have extra

cash for investing, you should know that Revenue Canada allows a lifetime RRSP over-contribution of up to \$8,000 with no penalty. Although it's not tax-deductible, all interest earned will be tax-sheltered while it remains in the plan. And if need be, you can convert the over-contribution into a tax deductible contribution in a later year.

Take an extra tax deduction of up to \$6,000

If you're receiving pension income from a Registered Pension Plan, or Deferred Profit Sharing Plan don't wait - this is the last year you can take advantage of the pension income transfer of up to \$6,000 to your spouse's RRSP. However, keep in mind that Canada Pension Plan, Quebec Pension Plan and Old Age Security don't qualify for this spousal income transfer.

Recover "lost" tax deductions!

If you haven't contributed the allowable maximum amounts to your RRSP, don't worry. You can use any missed RRSP contributions for the years after 1990, for up to seven years. The "Notice of Assessment" you received from Revenue Canada upon filing your tax return shows your current year's contribution limit plus any amount "carried forward". If you have extra cash, you can make up the missed contributions in addition to your regular limits without penalty. As well as the additional immediate tax savings, you'll also enjoy a more comfortable retirement.

For more information call TD's RRSP Hotline at 1-800-668-RRSP (7777) or any Markham TD Bank Branch.