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Achieving Financial Success™

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Practical Wealth Creation Ideas

...for Simplified Financial Success™

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Is Your Money Safe IN A MUTUAL FUND?

One day your retirement income will flow from the capital you have been saving for years. Rethink the effect of inflation and low interest on your savings before switching all of your investments to ultra-conservative vehicles such as GICs or T-bills.

Inflation can turn low-growth to no-growth Over-investing for safety could actually jeopardize your financial security. Beware of today's low interest rates. Putting all your money in safe vehicles (including GICs, T-bills, money market funds) could decimate your after-inflation retirement income. Inflation is currently quite low. If in the future we see a year or two of high inflation, it could wipe out the low growth offered by guaranteed securities. Even with an inflation rate of just 2%, an annual retirement income of $65,000 might not cover your needs over 10 years. An estimated $79,000 would be required to meet the same financial demands.

Use growth investments to fight inflation Combat this retirement income erosion by holding a portion of your portfolio in equity mutual funds that have the capacity to inflate in value. This will add diversification, along with professional fund management, giving your portfolio an equity boost. Equity funds are designed to actually inflate while moving up in value with inflationary pressures. For example, a real estate fund may increase in value if real estate values inflate rapidly.

You've still got time to invest some of your capital over longer periods Remember, if you retire at age 65, you can expect to live another 10 to 20 years. That is a significant time horizon. Adding growth through a portfolio of diversified equity mutual funds can help fight inflation and deliver better, long-term returns in a low interest rate environment.

Are You Holding TOO MANY FUNDS?

If you hold 25 to 30 mutual funds, it may be time to edit your portfolio. An investor may amass a huge portfolio, purchasing two or three new funds every year. If you do this, it may seem you are diversifying, but you may find that you have acquired too many funds requiring a lot of management. Actually, one good mutual fund diversifies among many securities. It is wise to hold a number of good funds that diversify among nations and asset classes. It serves less of a purpose to hold several similarly-invested funds. Many large-cap funds for example, may hold comparable securities, some of which may be in the same companies.

Simplify. Ensure you have a strong core-holding of Canadian content in your RRSP. This can be accomplished by purchasing just two or three funds. But foreign investing (both in your RRSP/RRIF holdings and non-registered funds) is also important. Consider the U.S. or Europe for stability, unless you have a higher risk tolerance.

Stay the Course. As you carefully analyze each year's purchase, consider keeping the top producers for the long term, and adjusting your portfolio only in favour of performance. Talk to your advisor because it is important to have a good reason to switch. You can continue to purchase units of the better, long-term performing funds you already hold.

Enforce an investment discipline. By adding to your core portfolio, you lessen the temptation to invest in the latest hot fund. This strategy will allow your investments to grow over time, while remaining manageable.