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Practical Wealth Creation Ideas

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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.

Growth investments may fight inflation Consider the potential to combat retirement income erosion due to inflation, by holding a portion of your portfolio in equity mutual funds that have the potential to increase in value. This can also add diversification, along with professional fund management. Equity funds can increase or decrease in value, with the potential to gain in value when the relative stock market sectors increase in value. For example, a fund that specializes in financial services may increase in value when the value of bank stocks held within the fund increases.

Many retirees can invest capital over longer periods Remember, if you retire at age 65, you may live another 10 to 20 years. That is a significant time horizon. Potentially adding growth through a portfolio of diversified equity mutual funds may help fight inflation and deliver better, long-term returns in a low interest rate environment over the long term.