

## Your Mortgage vs. Your RRSP

**Where to put your  
extra cash ...  
Team News**

### **Paying Down your Mortgage vs. Contributing to your RRSP**

We all know that owning a home is an extremely important investment and is probably the largest financial obligation we will ever have. We also realize the importance of making annual contributions to RRSPs. This is a common question that we get so we decided to revisit the subject. (See MFR issue 148.) If you have surplus cash, which should you concentrate on first? Indeed, one can find experts to support either argument. Let's examine the alternatives in detail and look at some examples.

Assuming your mortgage has a prepayment option, every dollar you pay on your mortgage comes directly off the principal. This lessens the length of time it will take you to pay off the mortgage and lowers your total interest cost by a significant amount. For example, on a \$100,000 mortgage at 7.5%, making prepayments is like getting a tax-free return on an investment of 7.5% each year. Paying down a mortgage also gives a great deal of psychological comfort, which should also be taken into account. Keep in mind that using your paid-off home to help finance retirement can be difficult.



Even if you were to sell your home, purchase a less expensive one and invest the difference, it would not likely be sufficient to finance a 20 or 30 year retirement.

It's becoming more and more important to make contributions to an RRSP each and every year and to invest them wisely so that you can have a financially worry-free retirement. After all, why spend most of your life working and then have to suffer a lower standard of living during what should be some of the most enjoyable and carefree years of your life?

It's important to note that your RRSP contributions are tax-deductible. In investment terms, if you are in a 50% tax bracket, a \$1,000 RRSP contribution is equal to \$500 in after-tax money to pay down your mortgage. You must also take into account the fact that your contribution compounds tax-free within the RRSP. For a taxpayer in a 50% tax

bracket, earning 10% in an RRSP can be like earning a 20% return outside the plan.

Many investors find it difficult, if not impossible, to both reduce your mortgage and add to your RRSP at the same time. Is it best, therefore, to concentrate on just the mortgage or RRSP contributions or to do a little of both?

**One solution is to compromise by making your maximum RRSP contribution (or whatever you can manage) and using the resulting tax refund to pay down your mortgage.**

Here are a few factors to consider that may help you decide on the best course of action:

- Your marginal tax rate
- Your age
- Where you are in your mortgage amortization schedule.

Your marginal tax rate is important because the higher your tax rate, the greater the up front deduction for the RRSP contribution and the more attractive this option is. Your age should be

*continued on back page*

#### **Check out:**

**[www.mutualfundreporter.com/tools](http://www.mutualfundreporter.com/tools)**

**For a link to a helpful calculator to analyze your own personal situation and other useful tools.**

### 1 Year Total Return

1 Fidelity Small Cap America . . . . .	43.3%
2 AGF China Focus Class . . . . .	39.5%
3 Talvest Global Health Care . . . . .	35.8%
4 O'Shaughnessy US Value . . . . .	29.3%
5 AIC American Focused . . . . .	28.4%
6 CI Global Energy Sector . . . . .	25.5%
7 Fidelity Focus Financial Servs. . . . .	24.7%
8 AGF International Value . . . . .	23.4%
9 Mac Cundill Value Series A . . . . .	23.0%
10 Mac Cundill Value Series C . . . . .	22.6%

### 3 Year Total Return

1 Talvest Global Health Care . . . . .	47.0%
2 Talvest China Plus . . . . .	46.1%
3 Talvest Global Small Cap . . . . .	29.8%
4 Altamira Science & Technology . . . . .	28.4%
5 BPI Global Opportunities . . . . .	28.3%
6 AGF Aggressive Growth . . . . .	24.6%
7 AGF China Focus Class . . . . .	24.4%
8 CI Global Consumer Products . . . . .	23.6%
9 Elliott & Page US Mid-Cap . . . . .	21.5%
10 Talvest Global Sci & Tech . . . . .	19.9%

### 5 Year Total Return

1 BPI Global Opportunities . . . . .	34.2%
2 Altamira Science & Technology . . . . .	26.4%
3 Orbit World . . . . .	22.5%
4 Janus American Equity . . . . .	21.7%
5 Fidelity Small Cap America . . . . .	20.7%
6 MB Pooled American Equity . . . . .	20.1% #
7 AGF International Value . . . . .	19.9%
8 AGF Aggressive Growth . . . . .	19.8%
9 McLean Budden Amer Eq Growth . . . . .	18.3%
10 BPI American Equity . . . . .	17.3%

### 10 Year Total Return

1 MB Pooled American Equity . . . . .	18.4% #
2 CI Signature Amer Small Cos . . . . .	18.1%
3 GBC North American Growth . . . . .	17.4%
4 TD US Index Fund (\$US) . . . . .	17.1%
5 Spectrum American Growth . . . . .	16.9%
6 AGF International Value . . . . .	16.6%
7 Trimark Fund . . . . .	16.6%
8 McLean Budden Amer Eq Growth . . . . .	16.3%
9 AGF Amer Growth Class . . . . .	16.1%
10 AIC Value . . . . .	15.9%

### 1 Year Total Return

1 CI Global Technology Sector . . . . .	-64.0%
2 Mac Univ Internet technologies . . . . .	-62.8%
3 Altamira e-business . . . . .	-61.7%
4 Talvest Global Sci & Tech . . . . .	-61.2%
5 CI Global Telecom Sector . . . . .	-60.8%
6 AGF Global Tech Class . . . . .	-60.1%
7 Mac Univ Wld Science & Tech . . . . .	-58.6%
8 Royal e-Commerce . . . . .	-57.6%
9 AIM Global Technology . . . . .	-56.8%
10 Altamira Science & Technology . . . . .	-56.8%

### 3 Year Total Return

1 Dynamic Europe . . . . .	-9.7%
2 Clean EnvironmentGlo Equity . . . . .	-9.6%
3 Scotia European Growth . . . . .	-8.3%
4 TD European Growth . . . . .	-8.3%
5 AGF Germany Class . . . . .	-7.6%
6 TD Int'l Growth . . . . .	-7.6%
7 Dynamic Focus + American . . . . .	-7.3%
8 CI European . . . . .	-7.0%
9 AIM American Blue Chip Growth . . . . .	-6.8%
10 Talvest European . . . . .	-6.1%

### 5 Year Total Return

1 Mac Universal Far East . . . . .	-11.8%
2 Royal Asian Growth . . . . .	-11.0%
3 AGF Asian Growth Class . . . . .	-8.9%
4 HSBC AsiaPacific . . . . .	-8.8%
5 CI Pacific Sector . . . . .	-7.0%
6 Talvest Asian . . . . .	-6.4%
7 CI Pacific . . . . .	-5.8%
8 TD Emerging Markets . . . . .	-4.7%
9 TD Asian Growth . . . . .	-4.4%
10 TD Japanese Growth . . . . .	-4.0%

### 10 Year Total Return

1 Royal Japanese Stock . . . . .	0.3%
2 AGF Japan Class . . . . .	2.6%
3 CI Pacific Sector . . . . .	3.1%
4 CI Short-Term Sector . . . . .	3.5%
5 CI Pacific . . . . .	3.9%
6 Royal \$US Money Market . . . . .	4.0%
7 Merrill Lynch US Money Mkt . . . . .	4.0%
8 AGF US Dollar Money Market . . . . .	4.3%
9 Talvest Asian . . . . .	4.9%
10 CI Canadian Sector . . . . .	5.3%

#### COMMENTARY

ScotiaMcLeod would be pleased to provide you with further detailed information on the above mutual funds, however we cannot provide information on the funds marked #. These are historical performance rankings, and are not indicative of future investment performance. When analyzing particular funds, stress longer term performance.

These rankings are not sales advice and ScotiaMcLeod does not recommend simply selling bottom past performance funds and buying top past performance funds. Purchase or redemption fees may be involved. Please call (416) 863-7777 or 1-800-387-9273 for specific recommendations tailored to your individual needs.

\* Increased to 30% effective January 1, 2001  
Important information about any particular fund is contained in its prospectus. You may obtain a copy of the prospectus by calling (416) 863-7777. You should read the prospectus carefully before investing.

## 1 Year Total Return

1 Mac Universal Precious Metals	38.1%
2 Talvest Global Health Care RSP	33.0%
3 CI Signature Cdn Resource	31.0%
4 Trimark Canadian Small Cos.	28.7%
5 Merrill Lynch Cdn Inc Trust	28.3%
6 AIC RSP American Focused	27.2%
7 Trimark Canadian Resources	26.9%
8 Elliott & Page Monthly Hi Inc.	26.0%
9 Mac Universal Cdn Resource	25.7%
10 CI Global Energy RSP	24.7%

## 3 Year Total Return

1 StrategicNova Cdn Technology	24.7%
2 Dynamic Venture Opportunities	24.3%
3 CI Signature Select Cdn	20.4%
4 Working Opportunity (Balanced)	20.0%
5 Capital Alliance Ventures	18.7%
6 AIM Canadian First Class	15.7%
7 Trimark Canadian Small Cos.	15.2%
8 Beutel Goodman Small Cap	14.1%
9 CI Signature Cdn Resource	13.5%
10 Trimark Canadian Resources	13.4%

## 5 Year Total Return

1 PH&N Dividend Income	23.7%
2 AIC Diversified Canada	19.5%
3 Royal Dividend	17.9%
4 Scotia Cdn Dividend	17.1%
5 AIC Advantage	16.3%
6 MB Pooled Cdn Equity Growth	16.3% #
7 Beutel Goodman Small Cap	16.3%
8 MAXXUM Dividend	15.9%
9 TD Dividend Growth	15.9%
10 Fidelity Cdn Growth Company	15.9%

## 10 Year Total Return

1 AIC Advantage	20.0%
2 Northwest Specialty Equity	17.7%
3 PH&N Dividend Income	17.2%
4 GBC Canadian Growth	15.9%
5 MAXXUM Dividend	15.9%
6 Dynamic Power Canadian Growth	15.1%
7 MB Pooled Cdn Equity Growth	14.5% #
8 Altamira Equity	14.3%
9 Mawer New Canada	14.3%
10 PH&N Vintage	14.1%

## 1 Year Total Return

1 CI Global Technology RSP	-63.9%
2 Altamira RSP e-business	-61.8%
3 CI Global Telecom RSP	-60.9%
4 Mac Univ RSP World Sci & Tech	-58.8%
5 Altamira RSP Science & Tech	-56.8%
6 AIM RSP Global Technology	-56.6%
7 AIM RSP Global Telecomm.	-54.7%
8 Spectrum RRSP Global Telec.	-53.7%
9 TD Nasdaq RSP Idx.	-52.5%
10 TD Nasdaq RSP Idx Fd E	-52.0%

## 3 Year Total Return

1 AGF Canadian Aggressive AllCap	-13.4%
2 Global Strategy Cdn Small Cap	-11.3%
3 Spectrum Canadian Resource	-9.2%
4 StrategicNova Cdn High Y Bond	-9.2%
5 AGF Canadian Aggressive Equity	-9.2%
6 Global Strategy ROTH Eur+ RSP	-9.2%
7 TD EuroGrowth RSP	-7.0%
8 Global Strategy Cdn Opportunity	-6.5%
9 Working Ventures Canadian	-6.0%
10 Clean Environment Equity	-5.8%

## 5 Year Total Return

1 Global Strategy Gold Plus	-17.7%
2 Scotia Precious Metals	-15.4%
3 Dynamic Precious Metals	-13.5%
4 Royal Precious Metals	-12.0%
5 TD Precious Metals	-8.5%
6 TD AsiaGrowth RSP	-7.8%
7 Altamira Resource	-7.6%
8 Mac Universal Precious Metals	-6.3%
9 CI Signature Explorer	-6.0%
10 AGF Canadian Aggressive AllCap	-3.3%

## 10 Year Total Return

1 Working Ventures Canadian	0.3%
2 Dynamic Precious Metals	2.6%
3 Mac Industrial Growth	3.4%
4 TD US Money Mkt (\$US)	4.0%
5 Mac Money Mrkt	4.0%
6 Merrill Lynch Canadian T-Bill	4.2%
7 AGF Canadian Money Market	4.3%
8 Fidelity Cdn Money Market	4.4%
9 Ethical Money Market	4.4%
10 Global Strategy ROTH Mny Mkt	4.5%

### NOTES TO THE PERFORMANCE TABLES

- ScotiaMcLeod is unable to provide information on funds marked #
- Figures are average rates of return for the periods ending Jun. 30, 2001
- Source data from Bell Charts, including over 3900 funds
- Funds with total assets under \$25 million are not included
- Only "totally public" funds are ranked
- RRSP eligible funds are at least 70% Canadian content and can also be held outside RRSPs
- Performance figures include reinvested dividends and management fees have been subtracted
- Non RRSP eligible funds can be held inside a ScotiaMcLeod RRSP to a maximum of 30% of book value

taken into account because the further you are from retirement, the more valuable your RRSP contributions will be as they have more time to grow. And finally, where you stand in the amortization schedule on your mortgage makes a difference because paying down principal in the early years of your mortgage means that you will save a substantial amount in interest payments in the long run. Conversely, paydowns in the last few years save you relatively little interest. Each household's circumstances differ so it's important to consider all the variables.

Let's examine the four possible combinations of payments that you could make:

1. Make your RRSP contribution, then invest the tax refund.
2. Make your RRSP contribution, and then use the tax refund to pay down your mortgage.
3. Pay down your mortgage, then invest the savings.
4. Pay down your mortgage, then start making your RRSP contributions

Keep in mind that determining which option is best for you requires a detailed analysis of your particular financial circumstances.

## Team News

We have experienced a few changes within the mutual fund reporter team.

Effective July 19, 2001 Nicole Keeler, a long standing Investment Associate within our team has taken maternity leave. We wish her and her growing family all the best. Also, Sandi Rossi has recently joined our team in an administrative role and has recently completed her CSC (Canadian

### Here's an example:

Dave Taylor has the ability to make a \$13,500 RRSP contribution on an annual basis. He also has a \$200,000 mortgage he would like to pay off. He's wondering which of the above four combinations would be his best choice.

The following assumptions will be made:

- 8% return on both his RRSP and Non-RRSP savings
- Value of the house is \$250,000 with an assumed growth rate of 2% per year
- Interest rate on the mortgage is 7.5% compounded semi-annually
- Mortgage payments are made monthly with a 25-year amortization
- \$13,500 is paid at the beginning of each year into either the RRSP or mortgage
- Dave's tax rate is 50% during the savings period and 40% during the payout period (retirement)

	Net Worth	Annual Payment
Alternative 1	1,194,160	85,684
Alternative 2	1,285,170	88,585
Alternative 3	1,062,580	63,768
Alternative 4	1,241,676	86,382

Net Worth = after tax value of built up assets at the end of the accumulation period (25 years)

Annual Payment = after tax retirement income payments for a period of 25 years

Running an analysis based upon the four alternatives noted above, Dave finds the following results at the end of 25 years, when his mortgage is paid off:

For Dave, the best alternative is #2, to make his RRSP contribution of \$13,500 and use the tax refund to pay down his mortgage. This will leave him with an annual after tax retirement income of \$88,585.

Most people would assume alternative #4 would be best, but this would leave Dave with annual after tax retirement income of \$86,382.

Consider also the situation where an investor loses his job. If he had put the same \$13,500 toward his mortgage (alternative #4), he would now find himself in a liquidity crunch. Whereas if he made a \$13,500 RRSP contribution while still employed, he would receive a \$6,750 refund to put toward his mortgage. If necessary, he could later withdraw funds from the RRSP account for emergency use in the year he was unemployed, and assuming he is earning less that year, he would pay less taxes on the withdrawal. Again, alternative #2, contributing to the RRSP first and using the refund to pay down the mortgage is often the best choice!

Securities Course) as well as CPH (Conduct and Practices Handbook Course) in which Sandi received an Award of Excellence for outstanding academic achievement. Her final course grade in the CPH placed her in the top one-percent amongst students who completed the course in the 2000 calendar year. Congratulations Sandi!

**Congratulations to Evan Brett and Sirish Sinha, our winners of Quicken Financial Software from our recent survey draw.**

**If you are interested in receiving our newsletter via e-mail drop us a line at:  
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