Double down to make more

Bruce Smith offers inventive strategy

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Special to Londoner

With the recent rise in mortgage rates, recent changes in Canada's mortgage rules and the fallout from the U.S. election, financial experts in the London area are reporting many clients are contacting them to ask about the best financial strategy to undertake.

Most are faced with two choices: continue to invest or use the funds to pay down on their mortgage.

"The traditional advice our parents gave us, to pay off our mortgage as quickly as possible, was predicated on times of higher interest rate fluctuations, including mortgage rates sometimes into the double digits," said Bruce Smith of Casb Management Group. He consults on financial topics, including investments, mortgagees and real estate.

Smith explains that with mortgage interest rates at historic lows, "the argument has been made to take any additional disposable income and invest it, achieving a rate of return that would exceed the financial benefit of making additional mortgage payments."

There are arguments to support both decisions. Experts call paying down your mortgage "the safe decision, the sure thing, and the easiest to track how you are progressing." Those who take this route will create equity in their homes, tax-free, when the property is deemed the principal residence. Paying down your mortgage also accelerates your mortgage amortization, so you will save interest, by decreasing the time you hold the mortgage.

Investing your money, however, could produce a return that outperforms the savings made by paying down the mortgage. "As interest income is subject to tax, you need to focus on the after-tax rate of return," Smith explains. "Complicating your decision is the type of investment you choose."

While investing in an RRSP (Registered Retirement Savings Plan) will allow for a corresponding income tax deduction, investors will pay taxes when the fund is cashed in. A TFSA (Tax-Free Savings Account) will allow for tax-free investment growth but without a tax deduction.

"Ultimately this comes down to a math calculation, depending on your individual situation and your tolerance for volatility in the markets," Smith says.

There is a way to get the best of both worlds. Smith has crafted what he calls "the Smith Maneuver," a "non-traditional method" for his clients who hold both investments and a mortgage. He advises cashing in investments and paying off their mortgage. Then, he suggests re-borrowing those funds using the house as security and re-purchasing the investments.

He defends his idea by pointing out mortgage interest is tax-deductible in the U.S. but not in Canada. Using his method, however, clients can essentially make mortgage payments tax deductible and add those tax savings to the real rate of return on your investments for an even greater return. He explains there are variations to the Smith Maneuver allowing you to re-borrow your mortgage payments for investment purposes.

"Over time, the entire security against your home would become tax deductible," Smith says.

For more information: www.casbmanagementgroup.com.

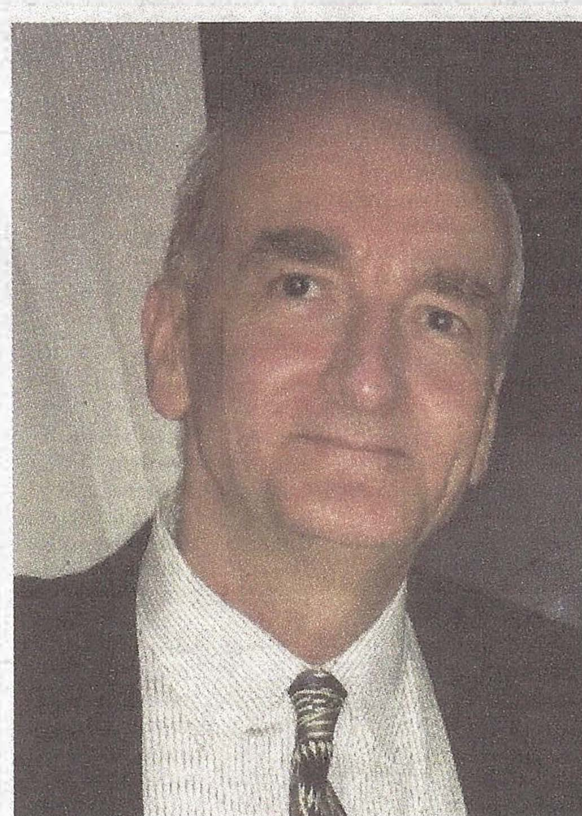

Photo submitted

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