Getting Serious About Savings & Investing

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We are now well into 2015 and your New Year's Resolution to do a better job of managing your money are already being forgotten. As the late Sir John Templeton famously stated, the best time to invest is when you have money! The challenge for many people, with many middle-class people just struggling to make ends meet, is just getting started.

You can begin with a basic monthly contribution to your RRSP or TFSA to get into the savings habit. The younger you are the better but it is never too late to start as long as you are still working. Just don't expect miracles if you don't start saving for retirement until your mid-50's for example.

Everyone in Canada has a financial strategy whether they realize it or not. They have the automatic or default plan or their own custom designed plan with a qualified financial advisor. The custom plan is based on your own efforts and focus on being economically self-sufficient with the advice and guidance of a trusted advisor.

The automatic (or the do nothing and don't think about it) plan, means getting the government support payments available to all Canadians CPP, Old Age Security and if your income is low enough, the Guaranteed Income Supplement. That is about it except maybe getting support from your children or other family members.

There are two schools of thought in the media - and financial advice books - about the best way to manage one's money during your career. The first one says you should build your emergency savings first, save for a house down payment (both can be done with a TFSA for example) and eliminate all consumer debt before you start saving for retirement, ideally by your mid-40's.

The challenge with this approach is that it doesn't work well in high priced real estate markets like Vancouver, Edmonton, Calgary or Toronto. Almost all of your disposal income that could go to retirement savings would be diverted for debt reduction. The result can be families hitting their early 50's with low mortgages, no retirement savings and hopefully enough savings to pay for their children's education. And they are running out of time to save money by age 65.

This approach also assumes that you only buy one house while the real estate statistics show that many people buy several homes during their work years and trade up to larger mortgages and never get out of debt. Never mind the ongoing temptation to take on consumer debt through car loans and other installment type debt.

The other approach you can consider is doing all of the same things as the first approach but also adding longer-term asset building goals to the mix. You can start saving for retirement by putting a modest amount into an RRSP on monthly basis to build the savings habit. The monthly amount for RRSPs and life insurance becomes part of your monthly family budget and is taken into account as part of the affordability calculation when buying a mortgage.

The result theoretically is that you buy a house at age 30, have a life and raise a family and have the house paid off by age 50 or so with RRSP savings of $100,000 or more. Ideally the kids are ready to move out of the family nest and your obligation to contribute to their education is done. You now have momentum for the final savings push to your ideal lifestyle in your retirement years.

Call us today to review your family's lifestyle and wealth building strategy.

Questions about your investment strategies?

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