

## Investing for Life

## Ten money tips for people entering the work force

Don't blow your paycheque on a slew of useless purchases and you'll reap the rewards later in life

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A major milestone in life is entry into the work force. Earning a full-time income for the first time can be an invigorating experience, especially while still free of major financial obligations such as a mortgage, or children. There is a great deal of disposable income available to spend on enjoying life: sporty cars, frequent dining out, and plasma-screen televisions.

But the disposable income can also be channelled into savings vehicles to get an early start on financial independence and other goals. Why wait for the mortgage and kids to come before “paying yourself” 5 to 10 per cent of your paycheque as most personal finance books discuss? You can reach your financial destinations much quicker if you've previously had a period to save 25-per-cent or more of your income.

Such high saving rates are not for everyone, of course. They are more for people who attach a high priority to financial goals such as becoming less dependent on a job before the usual age of retirement age, ensuring they have enough funds to help their children go to university or start a business.

**1.** If you attach a high priority to financial goals, continue to live more or less like you did before you got the job. Keep on living like a student or at home (but pay your parents a moderate rent or help out with household chores). Take the bus, subway, bike or walk. Learn to budget and keep track of monthly inflows and outflows of cash. Once you start living at, or beyond, your means, it's hard to go back. Plus, options are given up, like going back to school.

“My best financial move was selling my car and living in a cheap apartment in a commercial-industrial zone of my city,” says Brad Hurley, who lives in Montreal. “[It] allowed me to pay off my remaining debt ... save up for a 20-per-cent down payment on a house while also making decent headway toward saving for retirement.”

**2.** The influx of income from the first job can seem like a windfall and may lead to spending that is later regretted.

“My worse move would have to be buying a new car right after finishing university. I was pumped about having a ‘real’ job and signed a lease without even checking how much it was going to cost me. What a waste of money,” laments Tim Stobbs, a Saskatchewan engineer who writes the blog: [Canadian Dream: Free at 45](#).

Adds Ed Rempel from financial planning firm [Ed Rempel & Associates](#): “Early in your career, you may be tempted to try to impress people with your new income. Stay frugal ... the book, *The Millionaire Next Door* is true. The millionaires we meet are usually frugal people.”

### The Investing for Life series:

- **Part 1:** [Ten money tips for young people](#)

- **Part 2: [Ten money tips for people entering the work force](#)**

**3.** One of the best investments to make after starting a job is to build up a cache of cash. “Build an emergency fund, say three to six months of expenses,” says Adrian Mastracci, a fee-only portfolio manager at [KCM Wealth Management Inc.](#) in Vancouver. The other good investment is to pay off debts.

The return is risk free and equal to the pre-tax income you would have to receive to cover the lending rate. In other words, if the lending rate was 5 per cent and your tax rate was 33 per cent, paying down the debt would be equivalent to earning 6.6 per cent (5 per cent plus 33 per cent of 5 per cent) on a guaranteed investment certificate (in a taxable account). No where else can such a high, risk-free return be earned.

“Clear up education debt,” advises David Shymko, an investment counsellor with Vancouver-based [Macdonald Shymko & Co.](#) But “don’t focus only on your student loan ... most are tax deductible, so the interest cost after tax may not be that high,” he suggests.

**4.** The siren call of getting rich quick in the stock market is sometimes heard in one's youth – and those joining the work force for the first time will have the wherewithal to engage in this fancy.

To see if you have what it takes, first try out your ideas in a practice account at an online discount broker or through a stock-market simulator. Chartered accountant Darcy Donelle, from Moncton, N. B. (who is now working in Bermuda) did it this way and spared himself a chunk of change when his penny stocks crashed. This experience also left him with a healthy respect for the hazards of stock picking and market timing.

**5.** The most important asset young people possess is their “human capital,” the bundle of talent, energy and training they bring to their chosen occupation. They should be focused on building this up – investing in themselves. “I worked very hard at my career and have managed to make some pretty good coin – you can cut costs all you want but it's easier to get ahead with more income,” recommends Mike, author of the [Four Pillars blog](#). Preet Banerjee, senior vice-president at Pro-Financial Asset Management, also cautions: “Your biggest asset right now is your ability to earn an income the rest of your life, so you better make sure you have that insured with disability insurance” if employer doesn't already provide it.

**6.** If you insist on buying a house just after landing the first job, consider creative approaches to keeping costs down. “Perhaps our best financial move was purchasing a two-apartment house within months of graduating from university,” says [the Million Dollar Journey blogger](#). “We lived in one apartment while leasing out the other. The rent helped pay for most of the mortgage which kept our expenses very low.”

**7.** If you are really serious about getting a head start on your financial destinations, consider delaying marriage and/or children. Kids will be a major financial commitment right from the start (and the cost of weddings is nothing to sneeze at either). Starting a family also usually requires buying a house and getting a mortgage. It will be much harder to save, let alone do it aggressively. You will also have more time and energy to apply toward your career, and build up the value of your “human capital.”

**8.** Once an emergency fund has been set up and some headway made on paying down debt, savings can be re-directed toward the purchase of a car, house, and other things. Don't rush the purchases: the longer you can accumulate savings, the smaller the required loan – which means bigger savings on the interest payments.

Try paying cash for a used car. And try to “increase the down payment for a house to 25 per cent where there is no need for [Canada Mortgage and Housing Corp.] mortgage insurance,” remarks Mr. Shymko. The tax-free saving account (TFSA) is a good vehicle for saving, especially if it was opened at the age of 18 and contribution room has built up. “Much of your home down payment can come from Home Buyers' Plan withdrawals from your RRSP,” adds Mr. Rempel.

**9.** When saving for a car, house and other items to be purchased within the next 10 years or so, stick with conservative, interest-paying investments. Stocks are generally recognized as the highest returning asset over the long run but they are volatile and offer no guarantee over the short run. The safe options include high-interest accounts and guaranteed investment certificates (GICs), with staggered maturities not extending past a projected consumption date. A better alternative to GICs, according to financial adviser William MacKenzie of Weigh House Investor Services in Toronto are the banks' bonds instead – for virtually the same level of risk, they offer a higher return (if held to maturity – see his book, *The Unbiased Investor*, for more details).

**10.** An early start can also be made on saving for retirement, even for those planning to retire at 65 or older. Done through the stock market, the power of compounding can be impressive. “Take two investors, one who is 25 years old and the other 30. If they each invest \$200 per month until they retire, and earn a compound return of 8 per cent annually, the early starter will accumulate roughly \$648,000, while the procrastinator will have just over \$430,000,” notes Tom Bradley, president of [Steadyhand Investment Funds Inc.](#) Many people will have already started retirement savings through their employer's pension plan.

“People without such plans should try to mimic them by automatically deducting from their bank chequing account an amount each time a paycheque is received,” advises Marc Ryan, a retired lawyer who runs the [Independent Investor website](#). Equity mutual funds, which accept regular, small contributions without commissions, are a common saving vehicle here.

*Note to readers: This article is one in a series on life-cycle finances (appearing Mondays, since Nov. 9). As some issues may overlap the different stages of life, they could be covered in a prior or subsequent article.*

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