Yes, you can invest and make money

by George Perdue B. Sc. P. Eng.

"What's the use? I don't make enough money to invest."

"Taxes take all my money."

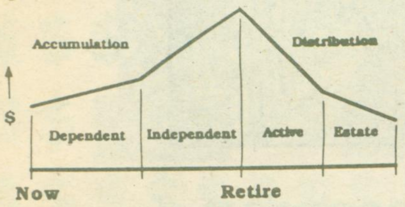
"I don't know where to put my money so I'll make a decent return."

"I've got kids and they take all the extra money I make."

"I'm retiring early to travel and do more wood carving and fishing. My investments will pay the way."

Do these statements sound familiar? Maybe not the last one, at least not for most of us. However, most people can make investments and they can earn good returns. You can too. If you start early enough you can be in the position for early retirement. So how do you proceed?

Let's examine some general situations.



We all go through the stages shown in the time line diagram above - in one form or another.

The first stage is young adults and families. During this stage earnings tend to be lower and expenses fairly high. Expenses are high because of mortgages and small children. The aim is to pay down the mortgage, accumulate some assets, protect them, and still have some fun. *If* anything is left over it could be invested, but this is often a low priority.

The second stage of accumulation is characterized by higher family income (spouses going back to work and promotions to higher paying jobs) and lower expenses as mortgages become either paid off or relegated to a smaller percent of income and children leave to go on their own. For those of you who are wondering about this, it is typical for the kids to stay around home until they are well into their twenties today. The aim is to pay down the mortgage, accumulate more assets, and still have some fun. As retirement approaches so does self examination and the realization that some action should be taken in order to supplement retirement income.

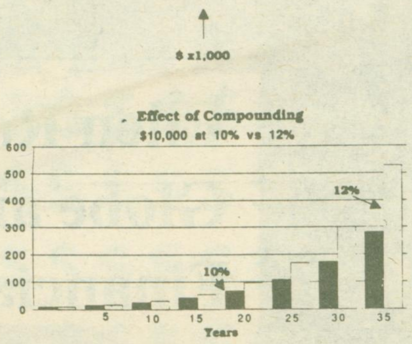
The third stage is retirement. You might define retirement as "not having to work" and "doing what I want, or what I can afford". Expenses can either rise or fall according to activity and availability of money. During this stage people tend not to try to accumulate more wealth. Some people do some free-lance work that allows them to maintain their accumulated wealth position for a period of time, but this activity usually evolves into full scale retirement and the accumulated wealth declines. The aim here to to secure an income and to minimize the tax burden associated with this income.

The fourth stage is an extension of the third stage. People tend to become less active and the expenses incurred decrease. Health tends to decline and self examination tends to focus thoughts on the estate. The aim is to minimize taxes.

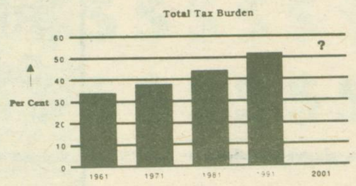
Do you recognize where you are? Well, now let's look at the game plan that allows you to retire in such a way as to be able to do what you want, when you want, where you want, and with whom yo want.

First of all, recognize that what is important is how much you keep, not how much you make. Obstacles in the way are; time, taxes, inflation, and a plan.

Time allows us to accumulate through compounding. The longer the period, the more dramatic the influence of compounding.



Taxes are paid in order to provide services desired by the majority of people. These would include highways for transportation, mail service, national defence, garbage removal, education, health care and welfare. Unfortunately, Canadians are now among the most heavily taxed people in the world. To go along with this our services are no where near the leaders in the world. According to the Fraser Institute we have sustained a tax increase from 34% of houshold income in 1962 to 51% in 1992. Guess what is ahead? So we need a plan for minimizing taxes.



Inflation is a silent killer. What cost $1.00 in 1970 costs about $4.00 in 1992. Inflation erodes your investment return to the point where many people, at best, are not getting ahead in real terms. Pensioners on fixed income are hard hit. A pension's buying power is cut in half every 12 years or so, and people are living longer.

A plan provides a focus. No plan, no focus, no achievement. Taxes take full bite, time slips away, inflation quietly takes its toll.

What to Do

Make a financial plan. There are three basic components. First, figure out your assets, your obligations, and your income. Second, set financial objectives for the short term and the long term. Third, make a set of action plans to achieve the objectives. Keep it simple to start with.

Objectives

In one way or another the action plans must embody the principles of growth, income, tax relief, and security. Each person will have a prefered emphasis and this may change depending on the stage on the time line.

Get Growing

Growth is important in order to beat the effects of taxes and inflation by the largest margin possible. This in turn will yield a retirement income greater than the government pensions (if they continue to exist in the future) to approach pre retirement income.

Example
1991 Canada Savings Bonds

Advertised Return	7.5%
Taxes (at 40%)	-3.0%
Inflation (Average)	-5.0%
Net Return	-0.5%

Some other way must be used if you are seeking growth. In order to get growth you must experience something like the following:

Example

Long Term Return	14.0%
Taxes (at 40%)	-5.6%
Inflation (Average)	-5.0%
Net Return	3.4%

How do you do this? You follow the following steps:

1. Start now - for compounding
2. Pay yourself first - budgeting
3. Invest regularly - cost average
4. Invest, don't deposit - own
5. Diversify - safety
6. Minimize taxes - keep maximum $

Start Now - Pay Yourself First

If you start early you can start small. Small you really can afford. Put aside $30 a month before you spend on anything else. You will be amazed to find that you get so that you do not miss the money.

So what can $30 a month do? If you start early enough you would be amazed.

Value at 65

Age	Monthly Investment	Value
25	$30	$300,000
35	$95	$300,000
45	$319	$300,000
55	$1310	$300,000

at 12%inside an RRSP

Thankyou compounding! You can't afford to wait.

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