The Stan Clark Financial Team

Personal Finance 101

For those wanting to improve their financial literacy, there's no shortage of resources and information available. In fact, there's so *very* much that it's hard to know where to begin! The Stan Clark Financial Team created this backgrounder to provide you with key need-to-know personal finance topics and concepts in one document.

We've aimed to have it serve as an introduction for new investors, yet be sophisticated enough to reinforce principles for experienced investors. We cover a wide range of topics, from saving early to the benefits of diversifying. It's our hope that you find this backgrounder helpful and thought-provoking.

Prepare for your future self

When you're young and have your whole future ahead of you, who wants to think about getting old? Even when people ask where you see yourself in 10 years, that seems too far off. Yet it *does* pay to think of your future self. Have you given the idea any thought? Maybe it's time you should.

Because, as much as we don't like to think of aging, we will all one day be that future self. Psychologist Daniel Goldstein makes a funny, intriguing contrast between what he calls our present and future selves:

"Let's face it: The present self is present. It's in control. It's in power right now. It has these strong, heroic arms that can lift doughnuts into your mouth. And the future self is not even around. It's off in the future. It's weak. It doesn't even have a lawyer present."

Our team tried out an app that shows how we might look a few decades on. Here's how the app aged Portfolio Manager Tom Cowans (left). "Wow," Tom commented, "that old fogey is going to be me one day – I better look out for him!"

Exactly. It's a good idea for all of us to think of our future selves from time to time – and what we want life to be like for them. It's also good to recognize that, if we just wing it, the odds of things working out are going to be really low.

Life expectancy has increased steadily around the world for the past 200 years. A child born today could likely live to be 100 years old. This means each of us needs to have enough money to last – to keep us happy throughout our golden years.

Life Expectancy for a 60-year-old*

	Male	Female	Joint
Top 50% (average)	89	91	94
Top 25% (healthy)	94	96	98
Top 10% (over-achiever)	98	100	101

*Source: FP Standards Council 2025 Projection Assumption

With such long time horizons to consider, we need to watch out for inflation. Even the price of the Big Mac has changed considerably over the last 20 years - it's increased nearly 50%! Inflation has a huge negative effect over time – and money is only as good as what it can buy. People shouldn't fool themselves into thinking inflation won't significantly affect their wealth. Furthermore, all planning should be based on the *real* value of that wealth, that is, factoring in the effects of inflation.

Over the past 100 years, inflation has averaged about 3%. At first glance, this might not seem significant. However, as you can see in the table below, 3% inflation over 10 years means a 26% loss in the real value of your wealth. And, over 30 years, inflation consumes 59% of your wealth.

Loss From Inflation Over Time

Time	2% Inflation	3% Inflation	4% Inflation
10 Years	18% loss	26% loss	32% loss
20 Years	33% loss	46% loss	56% loss
30 Years	45% loss	59% loss	69% loss

Lots of people would shrug, "I'll let my future self worry about that." They're anticipating that their future self will earn and save more to compensate for any inflation, and/or to make up for their excessive spending right now. These people spend too much and buy things out of their means, all because they are rationalizing that they can pay for it later. Trust us, that is not a smart way to plan for your own future.

One thing that makes it too easy for people to overspend is their credit cards, along with their bank's willingness to lend them money they don't have. Back in the day, before credit and debit cards, people would be paid their earnings in cash. If they spent it all before the end of the month, tough luck! Getting paid in cash was a great way to avoid getting into debt.

Younger folks? There's good news for you. Time is on your side. You can help your future self by putting money away now and setting personal goals. Time is your friend when it comes to investing – the more time you have, the better your chance of achieving your goals. And studies show that people who write down their goals accomplish significantly more than those who don't. So, try it!

Our goal, in highlighting topics such as tracking spending, budgeting, saving and investing, is to give you helpful tips on how to take control of your situation – and to get prepared for your future self.

Compound interest – it pays to start early!

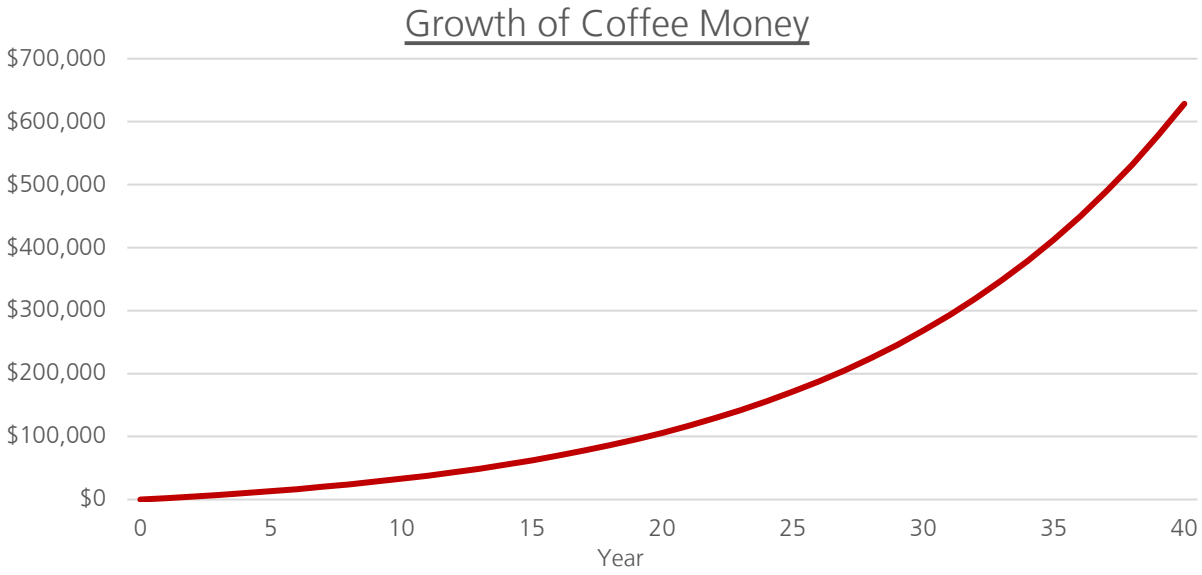
The first key to planning for your future is to focus on *saving*, and the sooner the better. Saving means not spending all the money you make. Saving and spending go hand in hand. One key to managing your spending is to give some thought to what you *regularly* spend money on and how those costs can add up, like buying a coffee every day or eating out once a week. Although they seem natural choices on busy days, most of us, whatever age, rarely realize how much we end up spending on such purchases – or the long-term consequences.

For example, a drink at Starbucks can cost up to $6. If you make a daily stop for coffee, that means you are spending $180 per month. This adds up to $2,160 each year!

A lot of us cherish our coffee in the morning. (Full disclosure: Some members of the Stan Clark Financial Team are no strangers to Starbucks.) But ultimately it comes down to making choices and sacrifices now to ensure that you are financially well prepared in the future. Being aware of your budget, and

choosing between those daily hits of Starbucks and your weekly restaurant dinner, rather than indulging in both, can significantly benefit your financial health.

Suppose you got your coffee at work (for free!) and invested the $180 savings per month. What would happen? Looking at rates of return for stocks and bonds over the last 151 years, we have an average annual return of 9.60% for stocks and 4.5% for bonds. Assuming you allocated your money 70% stocks and 30% bonds, the average rate of return would be around 8%. In 40 years, investing $180 per month with an 8% annual return works out to over $600,000! And all because you got your coffee at the office.



Give yourself as much time as possible to let compounding interest (the eighth wonder of the world, according to Albert Einstein) take effect – start saving early. Letting that Starbucks monthly allowance grow for 30 years would accumulate to just over $260,000 – and that's less than half the value you'd reach after 40 years!

A perfect example of the impact of time is American business magnate Warren Buffett. Buffett has been a wonderfully skilled investor. But were you aware that he began saving at the age of 10? And he continues to save now, at the ripe old age of 95. Of Buffett's current wealth, over 95% of it was amassed after he turned 65.

Another important point is that, over time, small differences in return can have big differences in results. As the table below shows, *the difference between 8% and 12% over 30 years is nearly $2 million on an investment of $100,000*.

Compound Growth From $100,000

Time	6% Return	8% Return	10% Return	12% Return
10 Years	$179,085	$215,892	$259,374	$310,585
20 Years	$320,714	$466,096	$672,750	$964,629
30 Years	$574,349	$1,006,266	$1,744,940	$2,995,992

There are many options for investing your savings, for example, using a Tax-Free Savings Account (TFSA) and/or Registered Retirement Savings Plan (RRSP). Both are great vehicles to help you invest.

All your growth in TFSAs is tax-free. You can withdraw savings at any time, with no tax consequences. Your savings are easily available – though of course that may or may not be a good thing, depending on what you do with the savings.

RRSPs also provide tax-free growth, with the added benefit that your contributions reduce your income tax. RRSP savings are not as accessible, since you need to pay taxes to withdraw them. The silver lining here is that, because of the taxes, you tend not to withdraw from your RRSPs, which helps to refrain from spending what you've saved.

Everyone has different needs. TFSAs might be better suited for some than RRSPs, or vice-versa – or there might be a need for both. It helps to think about these options early and develop a plan for your future. For more information, see the sections on TFSAs and RRSPs later in this paper.

Budgeting basics – helping you splurge guilt-free

Okay. We've introduced the concept of preparing for your future self. We've discussed the importance of getting into the habit of saving early, and touched on some of the ways to do that.

Now we will look at how to reach the point where you can indeed start putting money away. To do this, let's first get back to the basics of saving: setting up a budget and learning to monitor spending.

Budgeting may have a bad reputation to some – but that bad rep is undeserved. Contrary to popular belief, budgeting need not be time-consuming, restrictive and a task that's always on the to-do list for tomorrow. Far from it. When implemented correctly, using a budget not only puts you in a position of control; it can help you reach your financial goals with ease. It can even help you plan for the occasional splurge – guilt-free!

The basic concept of creating a budget is simple: Spend less than you make. The first step in setting yourself up for financial success is to look at where your money is going. That is, to track your spending. You can start by creating a few categories:

- After-tax income: monthly income earned after taxes
- Needs: rent/mortgage, utilities, car payment, phone bill, basic groceries, debt, insurance etc.
- Wants: eating out, shopping, vacations, etc.
- Savings: retirement, emergency fund, savings for future purchases, e.g., a down payment on a house).

With 50% of your after-tax income spent on needs, no more than 20% of your after-tax income should be spent on wants, and at least 30% of your after-tax income should be saved.

If this information is alien to you, or your budget needs a few tweaks, here's where prioritization comes in. Take some time to reflect on your monthly purchases. Become aware of what is costing you the most, after your needs and savings are taken care of. How are you spending the majority of your money in your wants section? Prioritize those purchases. Anything that is low on this list should be scrapped to make room for what is highest. For example, maybe a few birthday dinners require your attendance this month. However, those daily lunch runs are bringing you down. Consider taking your own lunch to work, creating a more flexible budget for celebrating with your friends and planning for that future purchase!

Now that you have a concrete budget plan in place, it's time to make the budget easy to implement. This could simply involve setting up separate savings accounts for each of your goals and keeping cash in jars on your kitchen counter. You could also set up automatic withdrawals so you won't have the opportunity or temptation to spend. Out of sight, out of mind.

We recognize that sticking to a budget can be a difficult task and that our 50/20/30 guidelines won't work for everyone. The key is to categorize your expenses monthly so you can see exactly where your money is going. If your savings targets are too aggressive or you're spending too much on wants, you may find that some months require adjustments. But by being realistic and sticking to your monthly sum, you'll be well on your way to reaching your personal financial goals.

To be effective, your budget should feel somewhat restrictive. We all like to indulge from time to time, but everything in moderation! If you can develop the habit of saving and being frugal, that will pay dividends in the long run. Think of the satisfaction in seeing your debt paid down and your assets accumulating. Your future self will thank you for it.

Now all that's left to do is relax and start planning that vacation…

Set SMART goals, and Pay Yourself First.

Budgets are the essential foundation for helping to reach goals, both short- and long-term. Budgeting helps clear the fog away so that you realize exactly how much you are making, after tax. You see where your money is going – and where your money should be going.

Now that you have identified your fixed and variable expenses, it is time to evaluate. Suppose the money coming in covers neither what is going out in expenses nor your savings goals. You have two options: Boost your income or lower your expenses. Here's where you may need to make some tough decisions and scale back on some of your spending.

Let's examine some ways to control spending so you can reach your savings goals and look after your future self.

First, create a SMART goal, one that is:

S**p**ecific

M**e**asurable

A**t**tainable

R**e**alistic

T**i**mely.

When you have a clear vision for yourself, saving becomes easier. Turning down purchases here and there will not feel as difficult. Short-term pain for long-term gain, right?

There are many ways to go about this. Say you are too easily tempted to spend your cash and could use some extra discipline. We recommend separating your monthly funds into separate "buckets" for each category of your spending. Then, if your funds for dining out are gone by the end of the month, it's time to crack open the cookbook or the Pinterest boards and experiment.

Luckily, in today's world we have many resources literally at our fingertips. There are some wonderful apps out there to help you track your spending and input your savings goals. However, we do recommend carefully researching any of these apps before diving into them.

Here's another simple way to save. If your paycheque gets sent to your savings account each month, you can set up automatic monthly withdrawals that go into another account. Again, out of sight, out of mind.

There are other, less direct ways for saving your money. One we recommend is meal planning and then transferring those plans to a grocery list. So, when you go to the grocery store, you have a plan to adhere to. You're not roaming through the aisles and on a whim buying a mix of things that might not

add up to meals over the week. Another thing to keep in mind at the grocery store is the premium price put on brand-name products. Try the no-name brand when you can. And did you know that LED bulbs can save you money on your electrical bill?

What this all comes down to is that making conscious decisions now will set you up for success later. Those saved pennies add up. Even the little decisions you make can affect how much money you will have for future purchases – right through to your retirement.

We have one basic rule for you: **Pay Yourself First.** Saving should be the first priority on the list of where your money goes. Figure out what is reasonable for you and put that away each month automatically. Once you choose the method that will work best for you, saving will be more straightforward.

Most important, you need to be realistic. Reward yourself! You may start out gung-ho and refrain from buying any fun things at all. But that's going to be impossible to maintain. Treating yourself once in a while is the only way the light will stay bright at the end of the tunnel. With these tips in mind, your savings pile will add up faster than you may think.

Delayed gratification: Are you a natural saver?

Every day we make purchases. Some are more important than others. What's the difference between good spending and bad spending? Let's look at why we all sometimes make bad spending decisions. And how, instead, we could balance our spending to keep life enjoyable, while saving for our future selves.

Some people are just natural savers. They get satisfaction from seeing their account values grow. Other people feel satisfied in using their hard-earned money for things they enjoy today. Often people go too extreme in either direction! The savers are so set on saving they may not take time to enjoy life and reward themselves for their hard work. The spenders may go through life spending too much and paying little attention to their future – leaving them in a tough spot when retirement hits.

In the 1960s, Stanford researchers did an interesting study. In what became known as the *marshmallow experiment*, they presented a tray of marshmallows and cookies to some pre-schoolers. They invited the kids to select one of these treats, just one. They said if the kids ate that piece immediately, they would not receive more. But, if the kids waited only a few minutes, they could take a second treat. If the pre-schoolers could just postpone their indulgence briefly, they would double their holdings.

The researchers monitored those kids right up to adulthood. They found the ones able to delay their gratification achieved much more success in life than the ones who wanted instant gratification.

Spenders can't delay gratification. If they have cash, they go right ahead and spend it on the things they want. Savers, on the other hand, derive immense satisfaction from having money in the bank or experiencing a major discount on a purchase.

These tendencies are somewhat hard-wired into us. For that reason it takes a lot of work to change them. Basically, good spending is paying for things we need; bad spending is spending too much for things in our wants category.

Think you spend too much? Here are a few tips to curb that habit:

Create a plan: Look back on what you spend per month and how much per item. Figure out your base spending (rent, groceries, transportation, cell phone, Internet, etc.). Then, look at what you are spending on the other things. Set a goal of what you want to save per month and stick to it. Pay for your needs and give yourself money for spending on just a few extra things.

Avoid spending triggers: These triggers could be certain apps or shopping spots, say, or restaurants. Stay away from these triggers as best you can.

Stop and think: Before making a purchase, step back and consider if you really need it. Better yet, sleep on it for a night or two.

Reward yourself: You deserve rewards for following your plan, whether dinner at a favourite restaurant or a new pair of shoes. Rewards will keep you committed during this new process.

Avoid "lifestyle creep": If that salary bump or year-end bonus arrives your first reaction might be to spend it. However, as your salary rises over time, try to keep in check both your needs and wants. Use the extra funds to invest and pay down any debt. The same applies for that RRSP rebate from the Canada Revenue Agency (CRA). As with the pay-yourself-first approach, if you stick to this, you will never miss what you never had.

Think of your future self: Sure, it's daunting to think far ahead to how much money you will need. But it actually helps! It will keep reminding you why you are putting that money away. You might even decide to save more. Either way, it will set you on the right path of good spending – and keep you off the wrong track of bad spending.

Property 101: Buying your first home

You've finished school. You've got the job. You're settled in your city. What's next? Buying your own home, of course!

Buying a home is often the first (and largest) financial decision people make in their lives. Your first step is to look at what you can afford and how you will pay for it.

You will need to save for your down payment – at least 20% to avoid the Canada Mortgage and Housing Corporation (CMHC) insurance premium. You will also need to save for closing costs, typically from 2% to 5% of the purchase price. And be sure to budget for any strata/maintenance fees and property tax.

If you're like most home buyers, you will have to finance your purchase with a mortgage. A mortgage is a loan that uses the home you buy as security. Your mortgage payments build personal equity, as opposed to renting, where your money goes directly to the building or unit owner.

When you apply for a mortgage loan, your credit score will factor into the interest rate you pay. The higher your credit score, the easier it is to get a loan at a lower interest rate. Personal finance expert and author Preet Banerjee, host of the Oprah Winfrey Network's *Million Dollar Neighbourhood*, and financial panelist on CBC's *The National*, provides tips on when buying is more attractive than renting. Banerjee states that you should:

- Have a sufficient down payment saved up.
- Consider staying put once you do buy (for at least 10 years – with the option to rent out during that time).
- Have enough money left over every month for both saving and living a balanced life – this ties in with how much of a down payment is required or you wish to put down from a comfort level

In the long term, owning a home is typically a wise investment. Home prices usually rise with inflation, and over time the return on this kind of investment (especially when factoring in the impact of leverage) can be substantial. Buying your first home and building equity is the first step on the property ladder. It gets you into the housing market and allows you the potential to trade up to better homes as your circumstances allow. The key to your first purchase is to be creative and strategic in your approach. You will likely have to compromise on your first home. That's okay. Stay focused on the long-term opportunities that being on the property ladder can bring.

Buy to wait instead of waiting to buy

Realize that your first place likely won't be your last! Despite real estate prices continuing to rise across many parts of Canada, the recent development of work-from-home technologies and the improving transit infrastructure have opened up real estate possibilities that weren't possible before.

Your first purchase will likely not be perfect. Try to compare buying your first place to a job. You can upgrade your job, right? Well, you can also upgrade your home! You can wait for the upgrade to happen – or you can plan for it and eventually get it yourself.

Here are other tips for first-time home buyers:

- Make a wish list of wants vs. needs. Identify what is important to you, e.g., if you don't have a car, being near transit is a need.
- Talk to a mortgage broker or your bank about your financing options.
- Find a realtor who is right for you.
- Have patience! The right place will come along.

One extra source of down-payment funds for a first-time buyer can be a tax-free withdrawal from an RRSP under the Home Buyers' Plan (HBP). Please google "CRA RRSP Home Buyers' Plan" for more information). This plan allows you to withdraw up to $60,000 (per person) tax-free from your RRSP for the purchase of your home, with the caveat that these funds must be re-contributed in the future.

Legislation to create the new Tax-free first home savings account (FHSA) was also passed in late 2022. This new registered plan gives prospective first-time homebuyers the ability to save $40,000 (annual contributions capped at $8,000) on a tax-free basis towards the purchase of a first home in Canada.

Like a RRSP, contributions to an FHSA will be tax deductible. Withdrawals to purchase a first home, including from any investment income or growth earned in the account, will be non-taxable, like a TFSA. Any FHSA funds not needed to purchase a home can be rolled into an RRSP when the account closes. The new legislation confirms that a first-time homebuyer can use both the FHSA along with the existing HBP to purchase their first home.

TFSAs: An important, effective way to grow your wealth

Back in 1789, Benjamin Franklin wrote that "in this world nothing can be said to be certain, except death and taxes." As of today, the death part is still accurate. But since 2009 in Canada, there is an exception for the taxes part: Tax Free Savings Accounts, or TFSAs.

Usually, any income generated by your investments is taxable. If your taxable income is above around $15,000, you will pay tax on your investment income of 15% to 25%. And the tax rate could get as high as 53.5%, depending on your province and total income level. This can become a big drag on the growth of your investments. TFSAs allow you to totally avoid that tax for a portion of your savings and investments. They are very flexible and should be the cornerstone of almost everyone's savings portfolio. The earlier you start, the better, because you'll have more time for the tax-free compounding to have its effect.

Let's start by reviewing some basics of what a TFSA is and how it works.

First, you are only allowed to contribute a certain amount each year into a TFSA. TFSAs were introduced in 2009 with a limit of $5,000 per year. This amount has changed from year to year; as of 2026 it is $7,000. To accrue room, you need to be a Canadian resident and 18 years or older. If you haven't yet opened an account, or you miss a year or two of contributions, no problem: It's retroactive. You don't lose the contribution room and it carries forward. If you've been able to contribute each year since 2009, your total contributions up to and including 2026 will total $109,000.

If you need to withdraw money from your TFSA, again, no problem. There is no tax owing on the amount withdrawn and you can re-contribute the amount as soon as the following calendar year. In a TFSA account you have many investment options, such as cash, GICs, bonds, stocks and exchange-traded funds (see later sections for more information on these).

How much of an advantage are TFSAs? For illustrative purposes, say you start contributing at the eligible age of 18 and put in the maximum (let's assume $7,000 per year going forward) until you are 60, with a compound annual return of 8%. Your savings would grow to over $2,300,000 tax-free. And they would be over $11,000,000 by age 80! In the chart, you'll see how a TFSA grows over time. Notice that the longer your time horizon is, the more your savings can grow.

TFSA growth assuming an 8% return, 40% marginal tax bracket and $7,000 in annual contributions, starting at age 18

Age	Total Contributions	Profit	TFSA Total	Regular Taxable Account	Benefit of TFSA
30	$84,000	$59,467	$143,467	$115,425	$28,042
40	$154,000	$265,253	$419,253	$275,879	$143,374
50	$224,000	$790,564	$1,014,564	$532,306	$482,258
60	$294,000	$2,006,081	$2,300,081	$942,110	$1,357,971
70	$364,000	$4,711,220	$5,075,220	$1,597,032	$3,478,188
80	$434,000	$10,632,539	$11,0666,539	$2,643,684	$7,988,855

There are other things to note about TFSAs. If you over-contribute in a calendar year, you will be penalized 1% on that over-contributed amount until you withdraw it. But never fear: You can monitor your contributions online with Canada Revenue under My Account. If you designate your spouse as successor holder, on your death the TFSA account will transfer to them with all the tax benefits still intact.

Lastly, there is no upper age limit for TFSA contributions, unlike RRSPs, which require you to stop contributing at age 71.

Okay, so you may not have $7,000 sitting around at the end of the year. You can still start a TFSA. Arrange for savings to go automatically into your TFSA every pay period; for most people, that's twice a month. If you save ~$292 from each paycheque, that will add up to $7,000 by the end of the year. If you can't save that much, just do the best you can until you are able to add more later on. Your future self will thank you.

RRSPs: You can't start saving for retirement too early!

When you're young and in a career, retirement seems far away. But it *will* come eventually – faster than you think. So, you're best to start saving early for your retirement.

A Registered Retirement Savings Plan (RRSP) helps you do that. The two big advantages of an RRSP are: 1) tax-deductible contributions that lower your taxable income, resulting in less tax to pay; and 2) tax-deferred growth, meaning you don't pay tax on any of your gains until they are ultimately withdrawn. These two advantages are a huge help in saving for retirement.

Contributions can either come from yourself or your spouse. There are limits on how much you can contribute each year. These limits will be the lower of:

- 18% of your earned income in the previous year, or
- the maximum contribution amount for the current tax year, which for 2026 is $33,810

You can find your contribution limits on your Notice of Assessment, which the CRA provides each year after you submit your tax returns. By following the guidelines in our previous sections, you will have hopefully learned the tools to budget and save for personal investing. You should therefore have the funds to contribute! However, if you don't have the funds this year, it's still okay. You have the option to carry forward your RRSP contribution room and use it in the future.

As noted, you must close your RRSP the year you turn 71. At that time, you will have the option to withdraw from your RRSP, convert it to a Registered Retirement Income Fund (RRIF), or buy an annuity. Regardless of which option you choose, you'll need to pay income tax when you withdraw from the plan.

If you have a spouse who earns a lower income, and/or who is younger than you, you could benefit from a spousal RRSP. With this type of RRSP, the contributor can deduct the contributions, while the money grows tax-free under the spouse's name. By building up the spousal RRSP rather than your own, you can delay the withdrawal of your assets until your younger spouse turns 71. If you withdraw from a spousal RRSP, it will be taxed as income to your spouse, who is presumably in a lower tax bracket, and not you as the original contributor. However, a withdrawal cannot be made within three years of the spousal contribution; otherwise the income will be attributed back to the contributor.

Designating your spouse as a beneficiary for your RRSP is an important part of estate planning. It allows your RRSP to flow to your spouse tax-free and, by ensuring your registered account will not be included in your estate, avoids probate fees.

You'll find plenty of RRSP calculators online that help you get an idea of how much to save to fund your retirement. Just make sure the assumptions are realistic. And remember to factor in inflation! Retirement may be a long way away, but remember that when it does come, it can last a long time, most likely decades. You'll need a healthy amount of savings to fund your retirement.

As we mentioned about TFSAs, you can arrange for funds to automatically be deposited (and invested) into your RRSP every pay period. This is an effective technique and simple to follow.

What if you don't have enough savings for both TFSAs and RRSPs? Which should you do first? The answer is, they are both great options. RRSPs are a bit more attractive if your tax bracket is higher, because the contributions are tax-deductible. TFSAs could be better if you might need to withdraw some of the funds in the next year or two. Withdrawals from TFSAs are tax-free, whereas you need to pay tax on RRSP withdrawals. The key lesson is: Just contribute as much as you can to one or both. Once again, your future self – your retired future self – will thank you for it.

Stocks vs. bonds: What's the difference?

Now that we've introduced both the Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs), it's also important for us to talk about what to invest in.

There are many types of investments: individual stocks, bonds, preferred shares, mutual funds, exchange-traded funds… the list seems endless. We can't cover every type of investment here, but we'd like to look at the two main groups of investments or asset classes: *stocks* and *bonds*. Almost every type of investment is made up of one or the other, or a mixture of the two. They're very different from each other and the balance between them can really affect your returns and your risk. So, first, let's examine the difference between stocks and bonds. Then, second, how best to allocate money between them.

Stocks

In simple terms, stocks represent ownership in a company. If a company does well, it's likely that the stock price will go up. The reverse is also true - if a business performs poorly, the stock price will likely go down. When we talk about doing well or poorly, the most important measure is the company's *profits*, a.k.a. its earnings, which are simply its revenues less its expenses. Those earnings belong to the owners of the company, those who own its stock. The trickiest thing is, it's not just the past earnings that determine how a company's stock price fares. It's mostly what investors think the future earnings will be. Another important factor is the dividends you can expect, that is, the part of the earnings that a company decides to pay out to its owners.

With stocks you will participate in the company's ups and downs. But future company results are uncertain. Add in human psychology and you get volatile stock markets. It's true that, over the short term, anything can happen with stocks. But over the long term – that is, over 10+ year periods – stocks as a whole have produced reasonable results. That's because earnings across all companies tend to be very persistent. And, over the long term, the large short-term price swings tend to cancel each other out. In the long-term stocks have provided the best returns for any major asset class.

Bonds

With bonds, you are lending money to a government or company for a specified term. Meanwhile, they pay you interest. Then, at the end of the term, you get your money back. Bonds are generally viewed as safe investments, as you should be getting all your interest payments and principal back. But bonds are not all the same, especially corporate bonds. Bonds have credit ratings to indicate the risk level of not getting the interest you expected, or even of not getting all your money back.

If the interest rate on a corporate bond is a lot higher compared to an ultra-safe bond, it's a good indication that the risks are also a lot higher, and things might not go as expected. Remember that there's no free lunch!

The right mix

Now that we generally know what stocks and bonds are, how does one decide what amount of money to have in each? Each group has its advantages and drawbacks. Since everyone is different, the mix of how much to have in each also varies from person to person.

From the outset it might seem that stocks are the way to go. They're often a more exciting route and the potential returns are attractive. However, a balance is important, and the mix has a huge impact on your portfolio. The right mix depends on a lot of factors, but essentially revolves around your needs, how long you are investing for and how much volatility you can handle. One of the worst things to happen would be suddenly needing your savings and being forced to sell your stocks in a down market. It's a scenario you'd find very difficult to recover from.

When you are younger, you can usually take some risks. If you are saving for retirement and it's a long time from now, you might be comfortable taking more risks with your investments. But what if you are

saving for something in the near future, like a car or a place of your own, or a growing family? In that case, it makes sense to be more conservative. Everyone is different, so we encourage you to create a mix that is right for your unique situation.

As we get older, things change and our mix can change, too. It's important to pause every so often to see where things are at, and then reassess as needed.

Stocks: why some people lose at a winner's game

As we mentioned above, in the long run stocks have provided the best returns for any major asset class. However, we regularly hear stories of people who have done very poorly in stocks. What's up with that? Well, like many things in life, tools that are very helpful can also be very harmful if not used properly. Think about driving a car. Or using electricity. Or even taking a bath! For most things in life, you need to have some basic safety rules.

For the stock market, we have found three main hazards that explain why some people do not succeed when they invest in stocks. These are:

1. lack of diversification
2. investing in speculative stocks
3. market timing.

Diversification (often called the only free lunch in finance*)* is a key part of being a smart investor and becoming successful in the stock market over the long term. Diversification means investing in different companies, industries, sectors and countries. Investing in only one sector or using only one method of selection increases your risk. By diversifying, you wisely spread your money across several different areas.

Also, by doing this you create a cushion. For example, if one industry experiences a hardship and drops, your money in other areas will likely not have the same consequences, and may actually benefit. Think of energy. If energy prices fall, energy companies will suffer. But companies that use a lot of energy should benefit. So, investing in both will help reduce the risk from uncertain energy prices.

The second factor to consider is the type of stocks to invest in. Looking at the hype in the news, and choosing *speculative* stocks for your investments based on that hype, is risky. Sure, hearing about new start-up companies is intriguing. However, with no track record of their ability to grow or sustain profitability, they may not be the best place for you to invest your hard-earned funds. The failure rate of start-ups is very high. It usually makes more sense to invest in well-established companies that have made it through the start-up phase and have organizations, processes and tested, proven strategies. In the long run, proven success will always be a safer choice than hopeful speculation.

Trying to "*time the market*" is the third reason that people tend not to do well in the stock market. Often people's emotional involvement in their investments causes them to move their money in and out of the market frequently, trying to predict the ups and downs. Such *market timing* is tempting, but studies have shown that predicting market fluctuations is nearly impossible. In fact, trying to do so actually increases your risk of doing poorly over time. The average investor underperforms the very market they are trying to follow by buying high and selling low, and letting their emotions take control. *Time in the market*, not timing the market, is the key. Only by staying invested for long periods can you increase your chances of success. Famed investor Charlie Munger put it well: "The first rule of compounding: Never interrupt it unnecessarily."

To be truly successful over time, money you put into the stock market should be seen as a long-term investment. One way to do this effectively is by trying your best to remove your emotions from the equation. And part of that means not checking your investment account daily!

To help you succeed with your investments in stocks, you need to flip the above hazards around and turn them into safety tips for investing:

- diversify your portfolio
- invest in well-established companies, and
- avoid trying to time the markets.

You should only invest in stocks with money you won't be needing for spending in the near term. Following the market in the short term can be nerve-wracking. But realizing that your stock market money isn't needed in the short term can help you ignore the short-term swings. And, somewhat counterintuitively, if you have savings or surplus cash put aside for your short-term needs, you should view any stock market drops as good events. When these drops occur, they enable you to add to your long-term investments at discounted prices. Of course, this only works if you add when markets drop, rather than doing the opposite.

Estate planning and insurance: We're living longer…but life is unpredictable!

Famed math professor John Allen Paulos once said, "Uncertainty is the only certainty there is, and knowing how to live with insecurity is the only security." When you're young, the idea of mortality isn't something you consider too often. But look at it this way: Life at any age has its uncertainties. There are several important steps you can take to prepare for surprises the future may spring on you. In addition to saving and investing for your future self, estate planning and insurance are key tools that can help ensure your loved ones are taken care of should something happen to you. And, that your assets are distributed as you would wish when you die. This isn't being morbid. It's ensuring peace of mind!

Insurance

There are different types of insurance that may be worth looking into, depending on who earns income in your family, what your goals are for your estate, and what stage of life you are at:

1) Life insurance provides a tax-free, lump-sum cash payment in the event of death. It is used: to replace income; to pay off debts (e.g., mortgage); for business continuation; or in estate planning when taxes are due upon the second death of a spouse. Life insurance can have many different benefits or features, but usually falls under two types:
    a. *Term* –bought for a pre-determined period such as 10 or 20 years, or
    b. *Permanent* – such as whole life or universal life. As the name suggests these are intended to be permanent, and often involve a savings component, but will be the more expensive of the two types.

2) Disability insurance provides financial security by replacing part of your earnings should an accident or illness cause you to become disabled and unable to work. If you have disability insurance through your work, it often makes sense to supplement this with a personal policy; this will better bridge the gap between income and expenses during a disability.

3) Critical illness insurance provides a tax-free, lump-sum cash benefit if you are diagnosed with one of the covered conditions, such as heart attack, stroke or cancer. Critical-illness insurance is designed to help pay costs and protect your investments so you won't need to liquidate assets if you have an unexpected serious illness.

Note: You should also ensure you have sufficient homeowner insurance and liability insurance to cover your home, cars and other major assets.

Estate planning

Here are some key items that we recommend every individual consider putting in place. We strongly recommend using a qualified lawyer or notary public to assist with the creation of these documents.

1) **Will:** The purpose of a will is to provide for the orderly distribution of your assets and settlement of your liabilities or debts, and to express your wishes about guardianship of any minor children after your death. If you die without a will, your wishes may not be followed, even if they are known. Instead, your estate will be distributed according to provincial law. It may be necessary to update an existing will should you marry or have children.

2) **Designate beneficiaries for all registered accounts and insurance policies:** Designating your spouse/partner or a financially dependent child as a beneficiary for your RRSPs and TFSAs (note: only spouse/partner as a successor holder for a TFSA) will allow the proceeds to be paid directly to them on a tax-free, rollover basis and will allow the proceeds to avoid probate. Also, if the beneficiary of your RRSP or RRIF is your spouse, they can transfer the assets into their own RRSP or RRIF and the amounts will not be included as income on your final tax return.

3) **Power of attorney:** Whereas your will takes effect on your death, a power of attorney (enduring or limited) is used to appoint someone to look after your financial affairs if you are alive but incapable of dealing with them on your own. However, it is important to note that in many provinces a power of attorney cannot be used for health and personal care decisions. Rather, a representation agreement (or equivalent – see below) is used for this.

4) **Representation agreement:** Consider appointing a representative through a legally enforceable document with authority to make health decisions (e.g., life or death, types of healthcare on offer) and personal-care decisions in the event you become unable to do so on your own. In British Columbia this document is called a *representation agreement*. Other provinces have similar documents under different titles, such as: Personal Directive (AB and NS); Health Care Directive (SK and MB); and Power of Attorney for Personal Care (ON). If you do not have a representation agreement, a set of rules is followed to determine who would make healthcare and personal care decisions for you if you are unable. A representation agreement is particularly useful if you would prefer those decisions to be made by someone of your choosing.

Financial independence: Conclusion

The items we've discussed represent the building blocks of financial planning and investing. We've covered topics from the basics of budgeting to the difference between stocks and bonds, always focusing on the end goal of reaching financial stability and well-being.

Everyone wants that end goal. The dream is to have a job that is fulfilling, be able to own your own home, save for retirement, go on vacations with the friends and family you care about, and be a contributing member of the community. In other words, to become financially independent. Most likely your parents had the same dream, and their parents before them.

Whether you're just starting university, or have graduated and are looking for a job, or have been part of the workforce for a few years now – it's never too early or too late to think about your future and your finances.

Here is a review of the tips we've shared with you.

1. Think about your future self

It is of vital importance to remember to think about your future self. It's fun to live in the moment – and fun is something you should always make time for – but it is also important to set yourself up for success in later years. By making conscious money decisions and avoiding mindless spending, you will have greater opportunities to set goals. These might be: going back to school to pursue a new career; starting your own company; buying your dream home; or even retiring early! Whatever your goals, now is the time to look out for your future self by creating a clear vision for what you want. Learning to prioritize for your future over your short-term concerns will help create a strong foundation to set you up for success.

2. The big B

The latte factor: You remember going over that – how those daily coffee runs can add up big-time. Mindless spending routines are at the centre of a potential downward spiral. The easiest way to get rid of this impractical habit is to BUDGET. You can still have those lattes if you budget for them! Budgeting helps keep track of what's coming in vs. what's going out. Learn to categorize your expenses monthly so you know exactly where your money is going.

3. Pay yourself first

Okay, so now you have created your budget. Time to make saving and paying off debt a top priority. Put some money away before you have a chance to spend it! We provided a few suggestions on how to do this, like using a budget app or setting up automatic contributions to a savings account or investment vehicle, e.g., a TFSA or RRSP (more on those below). Note: Experts recommend having enough cash to cover you for six months in the case of an unexpected emergency, such as job loss.

4. Identify good spending vs. bad spending

Make a conscious decision for each purchase: Is it a need or a want? Good spending is paying for things you need; bad spending is paying for things you want ahead of paying for your needs. By identifying your spending triggers (e.g., that delicious dollop of guacamole is always extra), and learning to stop and think, you will make better choices about your purchases.

5. Get comfortable with investing

Investing at an early age is a great way to grow your money over the long term. It means your long-term savings can outpace inflation. Now, everyone is different. Identify the right mix for your own needs and be comfortable with your own investments. Also, don't forget to educate yourself! The tools we recommend for success include: diversification; investing in well-established companies; and realizing the long-term benefits of stocks by removing your emotions from market ups and downs and media influences.

6. Know your investment vehicle options

There is more than one effective way to save for your future self. An RRSP helps you save for retirement. The two big advantages of an RRSP are: 1) tax-deductible contributions that lower your taxable income, resulting in less tax to pay; and 2) tax-free growth, meaning you don't have to pay tax on any of your gains. A TFSA is one of the most important personal finance vehicles for growing your wealth. You can now contribute $7,000 per year; as of 2026 the total accumulated contribution amount is $109,000. The earlier you start, the longer your investment horizon will be – allowing you to see the growth of your money completely tax-free!

7. Take care of estate planning and insurance

By putting in place all the necessary legal documentation and obtaining the right insurance, you can take the appropriate steps to ensure that your estate is handled as smoothly as possible – and that your loved ones are supported should the unexpected happen. Once completed, your legal documentation and insurance should be periodically reviewed to ensure the measures you have put in place are still sufficient and in line with your goals.

Sure, finances can seem scary. But they need not be. The key to success is to equip yourself with the proper tools and education.

Thanks for joining us in our introductory guide to all things finance. And here's to your future financial success!

For more information...

To learn more about CIBC Wood Gundy, Stan Clark, the Stan Clark Financial Team and the many ways we can help manage your wealth, please call (604) 641-4361 or toll free at 1 (800) 661-9442.

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Sources: tables and charts based on calculations performed by Stan Clark, CFA, CFP, MBA

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