The Stan Clark Financial Team's

PERSPECTIVES

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Financial Planning

Tips for the younger generation: Saving – it pays to start early!

By Brittany Kothlow – Client Services Coordinator

Based on your feedback – and thank you for providing that! – we've decided to devote a series of personal investing articles meant for your children, grandchildren and/or other young adults you care about. The purpose of these articles will be to help you share personal finance values and wisdom with them.

Granted, sometimes it's hard to pass along any advice, let alone financial advice, to a younger generation. To help make the advice in this new series more contemporary and accessible, the articles will be written by the younger members of our team: Sales Assistant Johnny Lyall, Administrative Assistant Meghan Jones and me. We've designed the content to speak directly to your millennials, from Stan Clark's millennials.

The articles will be highly readable. But they will also be sophisticated enough to reinforce principles for experienced investors, too. We plan on covering a wide range of topics, from saving early to the benefits of diversifying. Here's a sample of what to expect:

Most millennials would agree that it is difficult to get ahead these days, especially with the rise in real estate prices. We thought we'd give some tips on starting to think about saving and planning for the future. The little things we "need" certainly add up, like buying a coffee every day or eating out regularly. Although these seem to be natural choices in our busy days, we often don't realize how much we end up spending on these purchases – or the long-term consequences of such spending.

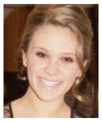
For example, a drink at Starbucks can cost up to $6. If you make a daily stop for coffee, that means you are spending $180 per month. This adds up to $2,160 each year! There are many ways to better use this money. Let's put it in perspective. If you start making your coffee at home or at work, and choose to invest the $180 per month instead, what will happen?

Looking at rates of return for stocks and bonds over the last 100 years, we have an average return of 11.5% for stocks and 4.3% for bonds. Assuming you spread your money evenly between stocks and bonds, the average rate of return would be around 8%. In 40 years, investing $180 per month with an 8% return works out to over $600,000! And all because you made a decision to make coffee at home instead of a daily stop at Starbucks.

There are many options to invest 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 of your growth in TFSAs is tax-free and you can withdraw savings at any time with no tax consequences. So, your savings are easily available. Of course, that may or may not be a good thing, depending on what you are doing with the savings.

On the other hand, RRSPs also provide tax-free growth, but have the added benefit that your contributions to them 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 we tend not to withdraw from our RRSPs because of the taxes, so this helps us to save.

Everyone has different needs. TFSAs might be better suited for some than an RRSP, or vice-versa – or there might also be a need for both! It helps to think about these options early and develop a plan for your future. ■



Brittany Kothlow is a Client Services Coordinator for the Stan Clark Financial Team

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Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca