Mastering Personal Finance with Ashley & Lora

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By listening to Dri's podcasts, you will learn the strategies that successful investors use to become financially independent.

For more information about Dri Financial Group, be sure to visit their website.

Biography:

In a change from the Richard Dri podcast's usual proceedings, today Richard's colleagues Ashley and Lora are having an enlightening chat about what you can do to get your finances in order. The vast majority of people unfortunately are not taught the ins and outs of personal finance while growing up, and as a result many young people find themselves deep in debt with no idea of how to break out of it. But a solution is within their grasp!

In this episode, Ashley and Lora help you visualize your financial goals, explain how little contributions can turn into big savings, and emphasize the importance of paying yourself first.

Highlights:

- You won't have an idea of where you want to end up financially before you try to understand what your current situation is.
- Define your short-, medium- and long-term financial goals, then craft budgets to determine your spending habits and how you need to spend your money in order to achieve these goals.
- Figure out which of your expenses are essential or non-essential, then pare down the latter—but know you don't need to do it all at once!
- Through compounding, the initially small amounts of money you put aside in a savings account can gain massive value over time.

- “Pay yourself first” by regularly putting 10% of your earnings into a savings account; setting up a pre-authorized contribution plan makes these transfers automatic so you don’t risk forgetting about them.
- Take note if your employer will match a certain percentage of your RSP contributions; depending on the amount you’re basically receiving free money from your work!
- If you have a credit card balance, pay it off in its entirety every month; if your balance is growing every month, that means you’re spending more than what you make.
- Even if it’s not possible to pay off your balance all in one go, don’t just pay off the interest as it will naturally compound over time; be sure to pay off at least some of the principal.
- Paying a little bit extra on your mortgage every month can rapidly close the gap on how much longer you need to pay.
- Try to avoid “lifestyle creep,” where you increase your expenditures to match your salary; increase your savings contributions or loan repayments instead.

Quotes:

“Financial freedom is attainable! And it actually starts now.”

“In order to know where you want to go, you must understand where you are presently.”

“If you can save more, save more. I can’t stress enough that the earlier you start, the more you save, the better off you will be.”

“Free money does actually exist!”

“Please, don’t get sucked into lifestyle creep!”

Ashley: Hello everyone. This is Ashley and Lora and we're here today with our listeners to provide valuable advice on personal finance and other related topics.

Lora: Throughout both of our careers and personal lives. We each have found that there is a lack of education on topics of personal finance such as credit card debt, pay yourself first and budgeting.

Ashley: Some of the ideas and concepts that we'll be sharing with our listeners were never taught in school or even talked about at home. We each to educate ourselves on matters of personal finance through our real life experiences.

Lora: They say that perspective is 20/20. Now imagine how better positioned you could be in your future financial endeavors if we gave you that perspective now.

Ashley: As adults, we all work towards having financial freedom to do what we're really passionate about, but do we actually believe that financial freedom is attainable? Well, we're here to let you know that financial freedom is attainable and it actually starts now. With a process in place and the discipline to consistently follow it, we can and will achieve financial freedom however we envision it.

The steps to take in order to turn your dream into a reality (1:58)

Lora: So let's talk about the process needed to link the dream to reality. First, in order to know where you want to go, you must understand where you are presently. That involves an exercise of evaluating your current financial position which means you must track your ins and outs. Or how much you are bringing in, that is your income, versus how much is going out, that is your spending. There is abundant literature on the worldwide web to help with this type of exercise and in our podcast notes we have links to a few sites that we have reviewed and found quite useful

Ashley: So now you know where you stand financially, which means you're now ready to start planning for your future. To do that you want to start by defining what your goals are, divide your goals up into short, medium and long term. A short term goal would be anything you want to accomplish within the next year. An example of a short term goal would be perhaps starting a registered savings plan and starting to make regular monthly contributions. Or maybe it's increasing your debt repayment by perhaps an extra hundred dollars a month. Medium term goals would be goals you want to accomplish within the next two to five years. An example would be saving for a down payment on a house or saving to pay off that student loan. A long-term goal would be anything greater than five years. A great example would be perhaps saving for your child's education, paying off your mortgage, and of course saving for that retirement.

Lora: And by the way, there is no hard and fast rule on this. You may have known all along what your financial goals are, but clearly articulating them and setting timelines for them make your goals real and tangible.

On designing a budget that works best for you (3:52)

So great. You know where you are, you know where you want to be eventually, but how do you get there? It's called a budget. Start by creating a weekly, monthly, or even quarterly budget in which you list all of your expenses. Reviewing your past bank and credit card statements is a good honest way to capture all of the money you've spent. In our podcast notes we also added links to sites that exemplify the kind of expenses you should be mindful of. Expenses like your monthly rent, your mortgage and or car payments are easy to start with.

Ashley: The next step is to categorize your expenses into your essential and nonessential items. So items like your monthly rent or mortgage payment, telephone and internet bills are considered essential by most people. However, items such as your weekly dinner out with friends and family, going to the movies, or perhaps that new pair of shoes can be considered nonessential. However, it's all relative and it really does depend on your lifestyle. This is where you can take the opportunity to come up with ideas on which expenses you can eliminate or perhaps live without.

Lora: And we suggest that you do not eliminate everything all at once. That's too hard. You still want to enjoy your life. We suggest that you start small. For example, think about eliminating the need to buy a Starbucks coffee or a Tim Horton's breakfast every morning. Make a coffee at home and take it with you on your way to work. It really does all add up. That $2 per tall coffee every morning is about $750 a year in savings. That's an $150 can be saved over a period of 12 months with transfers of $62 and 50 cents into a registered savings plan, TFSA, or even in a registered savings account. The point here is this, once you complete your budget and decide on what you're willing to cut back on, you are ready to start saving for your short, medium, and longterm goals. And even if you carry debt, you can start eliminating that as well.

Ashley: All right. I know some of our listeners may respond. Or you thinking to yourself, come on guys, how is $750 in savings a year really going to help me realize my dream of having $1 million or being debt free or even buying that home? Well, think about it, that $750 will help you realize your dream through get this, the magic of compounding. Over a 10 year period, $2 a cup of java invested at a rate of say 5% will actually grow to approximately $9700. Here's another example. Remember we talked about buying that new pair of shoes for $250? Well, think about it, if you actually saved that $250 every month over the next 40 years, invested it at a rate of 5% did you know that it would generate just over $500000? You're halfway there to reaching your goal of a million dollars. $500000, that's a lot of money.

Getting into the healthy habit of putting aside your money (7:16)

Lora: Ashley, that's amazing. I think I for one, and I think all of our listeners really need to take a moment to take that information in and realize its power. But in order for all of us to be able to take advantage of the magic of power, we really need to get into the consistent habit of putting away that coffee money into an account that will earn compounding interest. One really effective way to ensure that you are being consistent with the habit of putting away the money is to pay yourself first. Let's talk about what that actually means.

Ashley: The rule of thumb is that you should save at least 10% of your net earnings. By all means. If you can save more, save more. I can't stress enough that the earlier you start, the more you save, the better off you will be. So for example, if you earn $500 you should be putting $50 away into savings. If you earn $2000 that's $200 that actually should be put away into savings

Lora: And the amount is really up to you, but it should be affordable so that you do not expose yourself to those pesky, no sufficient funds charges. Now, some of our listeners might wonder how to put this pay yourself first plan into action or what might be the best way to do so? The answer to both questions is to put your savings on autopilot.

Ashley: Exactly, Lora. You may promise yourself that you're going to transfer that $250 of each paycheck into your savings account, but the reality is most people have great intentions, but they have no consistent follow through. We suggest speaking to your financial advisor to set up what is called a pre authorized contribution plan. What this really means is that you set up automatic withdrawals from your bank account to come out each week or month. You can choose your frequency. The money is transferred automatically to a separate account, and so it's not left in your bank account to spend. This strategy will also keep you accountable as it's automatic, so you won't forget to do it yourself. Also, another strategy is if you are employed full time at a company that offers the program, why not consider having your monthly savings redirected from your biweekly paycheck into a registered savings plan? In either case, you're systemizing your habit, which means you don't have to remember to put the money away yourself. It's done automatically for you.

How you can seek out “free money” (9:58)

Lora: Speaking of employment programs, as we were getting organized for this podcast earlier, you mentioned this phrase called looking for free money. And I found that phrase very provocative. Can you please explain what looking for money as a saving strategy might entail?

Ashley: Yes, absolutely Lora, free money does actually exist. So if you work for a company, look into your benefits package, does your employer match RSP contributions? Some employers will match up to 50% of your RSP contributions. That 50% portion is the free money I'm referring to. Some employers will also offer stock options or an employee profit sharing program. This allows you to deduct a portion of your salary and put it towards purchasing shares of the companies that you work for.

Often to encourage savings, employers will also match a certain percentage of the savings put towards the purchase of those company shares. This strategy is not only a great way to save, but you could also take advantage of the share appreciation if your company does well. As well you can also have additional income earned through dividends if your company does pay a dividend. Also, I'd recommend to look into see if your employer offers a pension plan. It's worth investigating and understanding what kind of pension your company offers and how it works. Again, most employers will offer some sort of matching program, some as high as 50 cents for every dollar you can contribute. Years down the line, you will thank yourself for asking as well as participating in the program.

The art of paying down a substantial debt (11:42)

Lora: And again we can anticipate some of our listeners to respond. Well, this is great but I carry a mortgage or this is all really well organized but I carry credit card balances. I have a line of credit, or I'm still paying down a student loan. Of course, we understand that carrying that of any kind is part of life for most people. Still, this does not mean that you will not be able to reach your financial goals. It means that you will have to account for your savings and your debt in your budget. The same exercise that you completed earlier on to find that you had $750 to put away in savings is the same exercise you will use to figure out how you can add an extra $100 a month towards your mortgage, your credit card, your line of credit or student loan payments. So that you can pay them off sooner.

The first rule is this. If you have a credit card, always pay off your balance every single month in full. If you have more than one credit card with debt, you can pay off the card with the lower balance to eliminate that card altogether and then focus aggressively to pay off the higher balance. Sometimes we all need those small ways to keep us motivated. And here are a couple of other points you should consider about that. If you're running a growing balance on your credit card on a monthly basis, that means you're spending more money than you make. That all too popular term live below your means applies to you.

Go back to evaluating your discretionary expenses and find those additional non-essential items you can really live without. Also consider becoming a cash-only consumer until you can pay off your credit card debt. We want to highlight to our listeners that the power of compounding really works both ways. It is a double edged sword. If you carry debt, interest on the whole amount, that is the principle, is charged daily. If you're only paying for the monthly interest amount and not paying down the principal, you will never pay off your actual debt. While becoming a cash-only consumer also considering making monthly payments that cover both interest and a small portion of the principle. That will ensure that that that is minimized and eventually eliminated.

Ashley: Those are some really good points there, Lora, and if you're tackling a line of credit or a mortgage, try increasing your mortgage payments by say, $100 a month. Did you know that by putting down an extra $100 a month, you can save significant interest payments and take years off your mortgage? Yes, I said that, years. I'll give you an example of how this would work. So let's assume you have a mortgage of $250000. You have an interest rate of 3.49%, I'll round it up to 3.5. That's an amortized for over 25 years. Your monthly mortgage payment would be approximately $1247. Now, let's increase your mortgage payment by $100 so now you're paying $1347 a month, okay? If you increase your mortgage payment by $100 you can actually stand to save approximately $15400 in interest over the life of the mortgage. That would actually shave three whole years off your mortgage.

Now to save even more you can select the pay your mortgage through biweekly payments. What is this? Essentially it's taking the same monthly mortgage amount divided by two. By increasing the frequency, you'll actually make 26 payments a year, or the equivalent of 13 months instead of

12. Now you're thinking, so what? No big deal, right? But by making the additional payment, you'll actually save $16300 of interest. And will shave an additional three whole years off your mortgage. Think about it. By combining the two debt reduction, you would save approximately $31700 in interest and reduce the life of the mortgage by six years. Think about it.

Lora, what would you do with an extra $31000? And think of being mortgage free six years sooner? Here's another tidbit of information. Take advantage of your lending institutions once a year lump sum payment option. Most financial institutions will allow you to make a lump sum payment of approximately 10%, some upwards of 20% of your original principal each year. Don't have any cash to throw down? This would be a great place to put your tax refund or year end bonus to work. Speaking of tax refunds and bonuses, your budget savings and debt and debt reduction strategies should be revisited each year or more frequently. If you receive a bonus promotion or a salary increase, please don't get sucked into lifestyle creep.

What exactly is the danger of “lifestyle creep”? (17:14)

Lora: Hang on Ashley. What is this lifestyle creep you just mentioned? Let's talk about it a little bit more. Explain.

Ashley: Certainly. Essentially what lifestyle creep is, it happens when you increase your lifestyle to match your increased income over time. You get the bigger house, the better car, perhaps even a boat. Or you increase your lifestyle expenses to quote unquote "keep up with the Joneses". we've all heard that term before. I always like to ask, do the Joneses actually own what they have or does the bank? Seriously, think about it?

Lora: So what we're trying to let our listeners know is that if your income increases, right, so should your savings or loan repayments?

Ashley: That's perfect. That's right. Tax time, corporate year ends and even holidays are a great time to save money earned through monetary gifts. Company bonuses or tax refunds. Think about it. A tax refund of $2000 will put you a lot further ahead with your savings goal. Then perhaps a few likes on your Instagram page for a trip to Europe that you recently took that, let's be real, you really couldn't afford.

Lora: So to our listeners, we've given you the process to evaluate your current financial position, a process to track your income and expenses to create a budget

Ashley: As well as saving debt reduction strategies to help you move you closer to your goals.

Lora and Ashley: Financial freedom is attainable it just takes discipline, patience, and time