From Lawyer to Drug Discovery Entrepreneur with Christina Barbato

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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:

SP Nutraceuticals Co-founder, Christina Barbato, joins me on the podcast this week.
Once a lawyer working in downtown Toronto, Christina left her job to work full-time with her company, SP Nutra, which takes scientific discovery and transforms it into consumable products that can treat disease. In her role, Christina takes these discoveries through patent and trademark protection, hires consultants to work through formulations, regulatory approvals and clinical trials, and finds well-suited partners with a shared vision to deliver these products to the world.

Today, Christina discusses her transition from law to the drug discovery business, relates the story of SP Nutraceuticals and its work, explains their product Metavo, and details her company's funding and investors. She also delves into how a company like hers is valuated, how they market and grow their business, their biggest challenge these days, and her advice for those thinking of following her example. Our conversation concludes with Christina's vision for the next 5 years, how she saves, invests, and protects her money, and an explanation of the 'rule of 72'.

Highlights:

- SP Nutra started with Christina's partner discovering molecules derived from food and plants that had a very specific effect on disease
- The pharmaceutical and natural food industries didn't feel his discoveries were a fit for them, so he and Christina started their own company

- In June of last year, they launched their first product, Metavo, an avocado based supplement that targets blood sugar levels
- Metavo gets into the cells and it works to target one of the underlying causes of insulin resistance
- SP Nutra's investors became equity partners from the beginning, are really just people who believe in the science, and they're all common shareholders
- SP Nutra's valuation is based what they've done with Metavo, what they have in development, and what the potential and the markets are for those products
- Currently, they are trying to finish setting themselves up across retail and online channels in Canada, then move into the U.S., and do it all at a pace where they can keep up with the manufacturing
- There are so many extra benefits to Metavo that their biggest challenge is to really focus on who their target market is, and try to get the right message to the right people at the right time
- Christina's first advice to those thinking of leaving their profession to become an entrepreneur is 'save your money'
- In the next 5 years, Christina sees Metavo as having scaled, and either becoming its own company or still be under their brand, but with a number of products underneath that brand
- Christina puts money into RESPs for the kids, RRSPs for herself, the tax-free savings account, and extra payments on their mortgage whenever possible
- She always ensures they have life, disability, and business insurance
- If anything were to happen to a business owner in terms of a lawsuit, or bankruptcy, creditors cannot attack the IPP, but they can attack the RRSP
- *The Millionaire Next Door* by Dr. Stanley is a good resource
- One aspect of financial independence for Christina is about education
- One of the things that Richard recommends and which he does for himself as well, is to work it backwards when determining financial freedom
- With the rule of 72, if you take the number 72 and you divide it by a rate of return, it'll tell you how long it'll take for that money to double

Quotes:

"These are just natural products that work. How is there not a market, and a place, and a space for this?"

"So the way it works is just like drug discovery in pharmaceuticals, instead of a library of synthetics, he has a library of natural molecules."

"What we thought was really targeted to pre-diabetics, is actually more to anybody who has blood sugar levels as one of their issues."

"That's been the attitude throughout is, our wins are our wins. Our losses are our losses. We're in this together."

“We have good things happening, and we see our path forward in 2021 as being a more regular path forward.”

“We're also just in the final stages of a distribution agreement with a large company in Canada.”

“We knew there was going to be a day where I would have to leave my job to run this company. And I was the one at the time making more. And so, again, it was just putting funds away knowing that we would need them.”

“And I see the kidney stone product that is the next product that we have in development. We see that one as having a wider and bolder distribution sooner than we did with Metavo.”

“What I did when I was young and going into my twenties, was really based off reading *The Wealthy Barber*.”

“So I'd rather have a rough number and continue to monitor that number on an ongoing basis, as I get closer and closer to that particular figure that we've calculated.”

“I love the idea of having a goal in mind. Not that you have to stop there, but that you have it. I find it motivating.”

Links:

https://www.spnutra.com/

https://www.metavo.com/

Richard Dri: So welcome, Christina to the Richard Dri, Wealth Navigator Podcast. And thank you so much for participating.

Christina Barbato: Thank you. It's exciting to be here.

Richard Dri: Well, it's my pleasure. I've been very interested ever since we had our initial discussion to speak with you and to further our discussion. I have to ask at the very onset. It's very interesting for me to talk to a person who studied and graduated as a lawyer. And then moved from a very good profession, in my opinion, to the drug discovery business. How did you make that transition and why did you make that transition?

Christina’s transition from law to the drug discovery business (4:02)

Christina Barbato: Yeah, so I'll say that it was just as surprising to me as it is to you. So I was the kind of person who told my mom I was going to be a lawyer when I was two years old. So it was my focus, my entire life, and I still love the law. And I miss it at times. But I've also sort of my whole life been a health advocate, and really always had a lot of passion for what you put in your body, and your investment in your body, and the importance of working out. Growing up Italian, I think, part of that too was, the importance of food and health was always something that was very central to my family as well.

So, my partner was actually the one who was working at University of Guelph, Food Science Department as an associate professor, but also running a lab. Made some amazing discoveries on single molecules, but that were derived from food and plants that had this very specific effect on disease.

And when he had this big war story of going to Pfizer and basically, pharmaceutical industry telling him that his discoveries were too natural products. And then he went to the natural product industry. And they told him that they were too scientific and too pharmaceutical. And he thought, "These are just natural products that work. How is there not a market, and a place, and a space for this?" And that sort of led us down the road of, if they won't do it, we will.

Richard Dri: Wow. That's interesting. That reminds me of that commercial. I like the product so much that I bought the company.

Christina Barbato: Yeah.

Richard Dri: The old commercial about the shaving product. Anyway, that's interesting. Now, what does the company look like today though? How old is it?

The story of SP Nutraceuticals and its work (5:52)

Christina Barbato: We incorporated in December of 2016, literally sitting on a coach doing it online ourselves. Both still working full-time, doing it out of the sides of our desk. And from there we built up enough momentum that we wanted to get some patents. And that's when we started going out and trying to get investors to invest in the company, so that we could fund these patents and move on to further developing it into a product. And so the research and development was a big part of the past three years. So we had to get them through phase one clinical trials, because these were single molecules that were never given to humans, and the kind of dosing that we wanted to create it in.

And so we had to go through a bunch of safety clinical trials for Health Canada to approve it. And it was in June of last year that we launched the first product, which is Metavo, the avocado based supplement that targets blood sugar levels. And the second product we have in development is still in a phase one safety trial in London, Ontario. And it's going to be done actually in the beginning of February. And so, we'll look to commercialize that one later this year.

Richard Dri: So how does that work? You found the single molecule. Could you explain that to a non-scientist? How does that work?

Christina Barbato: Yeah. And I'm a non-scientist so I can. So the way it works is just like drug discovery in pharmaceuticals, instead of a library of synthetics, he has a library of natural molecules. So if you think of cinnamon or some kind of natural supplement out there, that supplement, that natural thing could have 100 different molecules in it. And there might be one or two of those that are actually bioactive that are being absorbed by your body, and that are targeting something very specific in your body and doing something.

And so what Paul did at the University of Guelph, is he created a library of these single molecules, all dry from food or plants. And then he did a systemic, unbiased drug discovery on them, on certain diseases, to see what had an effect on it. And so people ask us all the time like, "Oh, how did you know that it was in the avocado?" And the truth is it could have just as easily been from a Tangerine. It was an unbiased screen of molecules. It just happened to be that there's a very powerful molecule in avocado.

Richard Dri: So Paul researched every single molecule that exists on earth? Or how did he decide which molecules to study?

Christina Barbato: Yeah. So he's getting there.

Richard Dri: Okay.

Christina Barbato: He's getting to every one on earth. No, basically he does educated guesses. A number of molecules from the avocado. Avocado known under superfood, same with kale. I think there was a few that were targeted in kale. There's a scientific process of how and why to separate certain molecules and believe that they are more active than others. And then you create a library which looks like those little white tubes of just isolating each of them.

Richard Dri: So when you've isolated the molecule that helped create, and I think I mispronounced it. Metova?

Christina Barbato: Metavo.

Richard Dri: Metavo.

What Metavo is and what it does (9:21)

Christina Barbato: So it's metabolism and avocado together, Metavo.

Richard Dri: Metavo. Okay. So that comes from the avocado plant or the product. And therefore, there's one molecule that comes from that particular plant or that particular produce?

Christina Barbato: Yeah. So when we first started, the isolated molecule had actually come from the pit, because it's more concentrated in the pit of the avocado. And when we first started to develop our product, we believed that the bioactive was only in the pit. And then what we did was, they went on to develop a method of detecting the bioactive. And that was a whole two year process in itself. And then we started testing pulp. So fresh pulp, and then different pulp powders from around the world to see if it was in there. And what we found is, it's not in all pulp, but it is in some. And that's how we began to develop our products.

Our product is natural freeze dried avocado. And the actual powder is one that we tested among many, many, many, many powders. And it was one of the few that had our bioactive in it. So from there we figured out how much was in there. And we created a product that has a standardized dose of our bioactive.

Richard Dri: So now, who would need that particular Metavo pill? Is it a pill or is it a powder?

Christina Barbato: Yeah, it's both. And we actually recommend getting both. Because we found is people are really enthusiastic about making their smoothies every day, but then they fall off of it. So it's better to have both. If you're having a smoothie or you're willing to mix it up in some milk or milk alternative, or put it in your yogurt, great. If not grab the pills and just make sure you're taking it every day.

Richard Dri: It's for blood sugar-

Christina Barbato: Yeah. First of all, pre-diabetics. Anybody who's gone to their doctor and their doctor said, "Look, you're bordering. You're on this path. You need to change your diet." That's who it's going to help the most. What we found after creating the product is that it helps with diabetics, and both type two and type one. One of our influencers is a man named Elliott Gatt. And Elliott Gatt has a whole interesting entrepreneur story himself. But he's training for the IRONMAN. He's a type one diabetic. He started taking our product and he was amazed at the difference he had in his numbers from taking it.

And so the way that the product works is it gets into the cells at skeletal muscles. And it works to target one of the underlying causes of insulin resistance. And so what we thought was really targeted to pre-diabetics, is actually more to anybody who has blood sugar levels as one of their issues.

Richard Dri: Now, do you need a prescription to get it, or will it be available off the counter?

Christina Barbato: No. So it's available on our website right now, metavo.com. It's available in the U.S. at metavo.us. It's on walmart.ca, and it's going to be on Amazon in the next few months.

Richard Dri: That's terrific. Now, let me back up a bit. It sounds like it took years to create. How did you fund that research and development? You mentioned you had investors. How did you get those investors? And what level of investors have you received? Have you gone from angel investors to VCs? Do you have equity investors? Help us understand how that worked.

SP Nutra's funding and investors (12:46)

Christina Barbato: Yeah, so we were very fortunate in the network that we had. My brother-in-law happens to be the CEO of Ethoca. So he was an entrepreneur. He created that from the ground up. It recently sold to MasterCard. And he had a network of people who had invested in his company early days. And so we got a lot of introductions that way.

Richard Dri: How did that work? Did they take a big portion of the equity, or did you give them debt? How did they become involved in the company?

Christina Barbato: Yeah, so they became equity partners from the beginning. And so, we picked a value of the company at the beginning. They bought in at that time. There was only a couple of them. We've done a second seed round of funding since then. But still just a small group of angel investors. That's how we've been able to fund it so far. And really just people who believe in the science, and they're all common shareholders, they're, and they did that on purpose. They wanted to be in this together. And that's been the attitude throughout is, our wins are our wins. Our losses are our losses. We're in this together. And we want to make these products a reality.

Richard Dri: Are you still looking for investors now or has that been closed to the public? Are you still looking for help?

Christina Barbato: So by next year is probably the year we're going to do our big raise. This year is going to be our year of growth. And next year is probably the year that we're going to be looking to scale.

Richard Dri: Are you thinking of going public, or is it still early to look at that option?

Christina Barbato: Ideally, I think a strategic VC, or a strategic partner is probably what we're looking for. So people or companies who are in this space, who are going to be able to actually help in scaling it.

Richard Dri: Okay. How do you valuate a pharmaceutical company like yours, or a research and development company? I would imagine the sales are still kind of modest. How do you value a company like that?

Valuating a company like SP Nutra (14:48)

Christina Barbato: Yeah, it's difficult because normally people are used to just taking the sales and adding a multiplier, and valuing the company that way. But it's not how we started and it's not how we're going. So it's part of it. But we also have, for example, this next product down the pipeline. And then there's other things being developed behind that. And so it's a combination of how's this one doing that we're launching. And it's also, we're sort of being judged on our ability to execute on the plans that we've had for commercialization and whatnot.

So we've so far been able to succeed. 2020 was difficult, but difficult for all new brands, and some existing brands, right? So that was a bit of an anomaly. But as we move into 2021, we're feeling confident. We have good things happening, and we see our path forward in 2021 as being a more regular path forward. And so you value it based on that, based on what we've done with Metavo. But also, what we have in development and what the potential and the markets are for those products as well.

Richard Dri: I guess, now that you've got to where you are, you have one product and a couple more in queue. How do you plan to grow it? You've mentioned that you're in Walmart. Hopefully, Amazon very shortly. But people have to come to the product. They have to click on it, and then they eventually have to try it, which means, a tremendous amount of marketing, I'm guessing. How do you handle that component? The growth of the product. Once you've identified a drug and had it approved.

Marketing and growing their business (16:22)

Christina Barbato: Yeah, a couple of things. So this year has been about increasing our sales channel. So giving people more opportunity to find it in different places has been important. We're also just in the final stages of a distribution agreement with a large company in Canada. So that would get us into retail stores across Canada. And once we sort of establish all of the, or set ourselves up in Canada, across retail and across the online channels that we want to, we want to focus on our entry into the U.S., and what those distribution channels will be. What those online sales channels will be. And we've started that process already. But we're trying to finish setting ourselves up in Canada and then moving into the U.S., and doing it at a pace where we can keep up with the manufacturing.

Richard Dri: Interesting. So there are companies in the Canadian market that will take your product and distribute it amongst their, I guess, retail locations that they sell to. And so what do you call those? Distributors? Wholesalers?

Christina Barbato: Yeah, so they're distributors. They do the warehousing and the inventory. And it basically came to be so that the retailers weren't dealing with a million one-off companies, or one-off orders from different companies. And so instead, they have a catalog. They pick all their different products that they want on their shelf. And they're getting it from one central location and one central company.

Richard Dri: Interesting. I didn't even know that. That makes a lot of sense. Now, does the Metavo need to be, and I'm only asking because of the Pfizer drug. But does it have to be frozen or maintained at a certain temperature, or can it be stored at room temperature?

Christina Barbato: Yeah, so great question, because what we learned developing this product is that just like avocado, our powder is finicky. So we had to invest a lot in the packaging. So our packaging, which the consumers will never know, but it's top of the line packaging. Because just like avocado, when the powder is exposed to light or oxygen, the color starts to change. And eventually, the taste will change.

And so there was a lot of investment into that packaging to ensure that our product stays fresh. And so, no. so the pills can be kept at room temperature. The powder right now it's an individual sachets that can be kept out. But when we move to a pouch form, a pouch form, which is, you take one scoop and then reseal the pouch. That we're recommending to keep in the fridge just because it'll stay fresher longer.

Richard Dri: Now you're still a fairly new company and you've had a lot of successes. But what would be the biggest challenge that you're facing today? Is it the regulator? Is it marketing? Is it financing? Or is it all of the above?

Their biggest challenge these days (19:11)

Christina Barbato: Yeah, I would say coming out of 2020, it's been all of the above. I think the biggest challenge for this product in particular is that there's so much science behind it, and there's so many extra benefits. So the bioactive targets the blood sugar. But it also makes your metabolism more efficient because it's going in, and it's telling the insulin how to work better. And so, there's this whole conversation about metabolism, there's the blood sugar, but then it's also avocado pulp powder. So it has a high amount of vitamin E, which is great for your skin. And it has a lot of antioxidants and it has all of the same benefits of the avocado. And so there's just a lot of messaging. And it's been a real challenge for us to sort of narrow it and really focus who our target market is, and trying to get the right message to the right people at the right time.

Richard Dri: So who would be the target market today for that Metavo product?

Christina Barbato: Yeah. So anybody struggling with their blood sugar. We've designed the product so it's a standardized dose of this bioactive. And the people who are going to benefit the most are those people who are pre-diabetic diabetic. And those probably with a family history of diabetes who know that there's a good chance of them going down that same path.

And then the secondary sort of market is those people who are struggling with metabolism. So you always hear about people saying like, "Oh, my metabolism slowed." Or, "I eat the same things and I work out the same, but I don't look the same." And so those people who feel like there's been a metabolic change.

Richard Dri: So a slower metabolism, I guess, it would be normal as we age. We don't need as many calories. And therefore, would this help increase the metabolism so that you could eat like when you were 21 years old, in that range?

Christina Barbato: I don't know if it will don't bring us back to-

Richard Dri: The fountain of youth, right?

Christina Barbato: Yeah, that's right. But no, it does go in and help with that, the equalization of how your body deals with the foods you eat and how it transforms it into energy. And so when that's working most efficiently, you're sort of optimizing everything. You're optimizing how you're eating. You're optimizing your workouts. It's just helping you function better.

Richard Dri: So you wouldn't call it a weight loss drug. It's more just to regulate your metabolism and bring it back to where maybe it was before you got sick, perhaps, or maybe even before you got a little bit older.

Christina Barbato: Yeah. And I don't like the general term of weight loss because it assumes that it will help everybody. And sort of more specific to people who have that underlying metabolic disorder happening.

Richard Dri: Well, it's a very interesting subject and company. I take a lot of various vitamins and I'm always looking for things to improve the way I workout to the way I sleep. And of course metabolism is something I've never even considered. But that would be interesting to study.

I want to ask you a personal question. You've gone from a legal profession to an entrepreneur. Do you have any advice for someone who is thinking of doing the same thing with their career? They're working at a law firm, or an accounting firm, or any profession for that matter, but they've got their eye on the entrepreneurial dream. What's your advice to that individual?

Christina’s advice to those thinking of leaving their current profession to become entrepreneurs (22:40)

Christina Barbato: Well, my first advice is save your money, because you do. You go from a lifestyle of just being able to go where you want, to travel where you want, buy what you want. And you're at a lot of fancy parties all the time. And you start to become an entrepreneur, and you're in the trenches. Those first few years are you working to build a company and really doing not much else. And you don't want to take a big salary at the beginning, and eat into the capital that you have at a time when your valuation is the lowest. So you really want to have built up some savings and a net for yourself, so that you can maintain your lifestyle. But get through those first few years of really building the company and building the foundation.

Richard Dri: How did you do that, Christina Barbato:? It's an interesting issue, because I've had the same issue when I first started. I basically relied on my late wife's salary to pay the bills.

And even that was not enough. We had to go into lines of credit. And I hate to admit it, but even credit cards for a period of time until the business had established clients and there was some recurring revenue. How did you handle that? Because that can be very stressful.

Christina Barbato: It was. And I think for us, we had some time to prepare. We knew and we had incorporated the company and we're still working full-time. And so we knew it was coming. We knew there was going to be a day where I would have to leave my job to run this company. And I was the one at the time making more. And so, again, it was just putting funds away knowing that we would need them. We would need them to get through those first few years. We would need them to build our sweat equity in the company. And also in the event that we needed it for the company too. You never know, right? So we were preparing in that. And my pay was structured that I had a base salary and a bonus structure. So it was always a little bit easier to put those bonuses away because we didn't rely on it month to month.

Richard Dri: How long did you plan this exit? Like you said, you incorporated back in December of '16. Was there a period of time before that, that you and your partner were considering one of you and you in particular, leaving your profession? Did you save before that? And if you did, can you give us an idea of how much money you think we should save before we go out on our own?

Christina Barbato: Yeah. I mean, it depends on the kind of company and the kind of capital you need, I guess. Because there's other companies that start, and they're making things and selling things right away. And they're sort of working off their sales and building that way. And that's different. We knew that we would have a period of time where it would be all development and research. And so, there wouldn't be anything to sell for a number of years. So, that was sort of different in our circumstance.

But no, I mean, I had my kids in 2011 and 2013. And so we were just sort of coming out of that what I call like the black hole of parenting, where you don't remember what day it is, what time it is, and you hardly sleep and they're just little. And so yeah, so I can't say that we started much sooner than that. We were just coming out of that zone of little, little ones.

Richard Dri: Little ones, yeah. Well, that's interesting journey, Christina, where do you see yourself in the next five years? If we have another podcast recording in 2025 or 2026, where is Christina at that point?

Christina's vision for the next 5 years (26:21)

Christina Barbato: Oh, my goodness. I think that'll be an interesting place because we'll really see where Metavo has gone by then. I see Metavo as having scaled. And either become its own company or still be under our brand, but with a number of products underneath that brand. And I see the kidney stone product that is the next product that we have in development. We see that one as having a wider and bolder distribution sooner than we did with Metavo because of the type of product that it is, and the strategic partnership that we believe that we'll have for that one.

Richard Dri: Thank you. I can't wait to talk to you again, definitely about that. So, Christina, I'm going to pivot a little bit and talk about financial matters. It obviously, it's called The Wealth Navigator Podcast for a reason. Other than the amount of money that you earn within the company and you put back into the company, do you save for your own, say, retirement plan or maybe, paying down debt, preparing for the education of your kids? Are you saving at the moment or are you still putting every available penny into the company?

How Christina saves, invests, and protects her money (27:33)

Christina Barbato: No, I would say we spent a good year and a half putting everything into the company, and then we sort of started going back to what I have always done. I came out of law school, and I had put myself through with working, but also OSAP. I had a huge debt coming out of school, and I paid it off in two years. I'm the type of person who can't stand having debt. So in terms of everything else, I try to do it all. So the RESPs for the kids, RRSPs for me, because I've never had a pension. Putting into the tax-free savings account. Doing what you can to have extra payments on your mortgage. I think, I try to do it all.

Richard Dri: Okay. That's interesting. So you take a portion of your income that you earn from your full-time job here at the company, then you put some of it into the RESP for your two children. You're preparing for your retirement, hopefully a long way off if ever. The TFSA, for sure. Which is a tax-free growth or has tax-free growth. And of course mortgage payments are always a guaranteed return on your capital, because you're paying down a debt that is incurring interest. And the moment you pay down your mortgage, you have an immediate return on that.

Now, being self-employed, one of the things that I have found is that some of us are so concerned with our product or our services that we forget about the liabilities, the risks that we face. I'm not talking just about cars and home, but I'm talking about things such as disabilities, death, lawsuits that may occur because of the product or because of the things that we do either at work or at home. How do you handle that? The risk component. So let me start with life insurance and disability insurance. Are you covered for that?

Christina Barbato: Yes. Again, it's my perspective. I'm sure there's people who have taken risks with that in the past, especially in a startup. But I was an insurance lawyer. So I sat down on the table and all I did all day was hear the worst situations that could possibly occur with life and disability. And people really relying on those policies. And so I came from a very risk averse position and we have always had disability insurance, life insurance. The company, I've always been on top of what we have in terms of insurance on product liability or business liability. So it's always at the forefront of my mind. But it's also because I was an insurance lawyer.

Richard Dri: Now, I have to applaud that. You've covered a very important component of our businesses. And that is to protecting what we already have. We're concentrating and we're focusing on growing the company, but before you can think of growing, you have to preserve what you already have. And most entrepreneurs, they miss that step and they can get into trouble. So I'm very happy to hear that you have both your own individual coverage, and you have the liability that potentially the product or the business may actually inflict. So that's great you've got that covered. Now in terms of savings, where do you invest that money? Do you invest it in stocks, bonds, real estate? What's your favorite investment?

Christina Barbato: I have to say that I don't have a mind for investments. And so I've always had an advisor. I'm not somebody who has fun trying to do their own trades. I have never been that person. It makes me dizzy thinking about it. So I've always had an advisor and I've always done sort of like a middle of the road approach between stocks and bonds. When I was young, I did GICs. And then when I got older, I split between stocks and bonds and sort of what middle of the road in terms of my risk.

Richard Dri: So sort of a moderate profile, not too aggressive, not too conservative. Now, are you buying individual stocks? Are you buying ETFs? Are you buying mutual funds? What's your makeup within the equity component?

Christina Barbato: So I would say that it's mixed. So I have mutual funds, stocks, and bonds. I don't have any ETFs. I don't believe. I've heard of them. But I haven't invested in them.

Richard Dri: I understand. Good, good. Well, that covers almost everything. Mutual funds are similar to ETFs. ETFs have their own characteristics. But one is considered passive or one is considered more active, but they're in the same category. Very good. Now, one last point on that, do you operate within a financial plan? Before you actually decided what to buy and what the risk profile that you were going to assume, did you start with a financial plan that covered retirement, education, estate, risk management, the entire spectrum of wealth?

Christina Barbato: So I'll be totally honest. What I did when I was young and going into my twenties, was really based off reading *The Wealthy Barber*.

Richard Dri: Good for you, actually. Yes.

Christina Barbato: I would always put a little bit of money aside. And I was investing almost exclusively in mutual funds at the time. And so, it wasn't until I got myself an advisor that I really explored other investments.

Richard Dri: Well, I think you could have done a lot worse than reading The Wealthy Barber. Yeah. I remember reading that, Christina, years ago and it was earth shattering at the time. David Chilton created a masterpiece, in my opinion, way ahead of his time. But he indicated that we should be saving 10% of our income. I think that number should be higher. But at the very least, if you could save 10%, I think you can reach a reasonable amount of savings within a working career to provide a satisfactory, if not a above satisfactory, retirement plan. And if you're part of a pension plan, whether it be at work or you create your own. And that's one of the things that you may want to create as a self-employed individual instead of an RRSP, some entrepreneurs, self-employed individuals consider what is called an individual pension plan or an IPP.

The difference is that an IPP allows you to actually put more money into your tax sheltered account than an RRSP. And as well, which is very important for an entrepreneur is that it is creditor proof. Which means that if something were to happen and you know this better than I do, if anything were to happen to you in terms of a lawsuit, or bankruptcy, creditors cannot attack the IPP, but they can attack the RRSP.

Now, there are some exceptions to that, but that's the general rule. So some entrepreneurs consider an individual pension plan instead of an RRSP. But I think you did a great job in reading that book. Another book you may want to consider reading because it sounds like you are risk averse and you actually save money and have saved since you were a young woman. And not that you're not today, but a younger woman. It's called *The Millionaire Next Door* by Dr. Stanley.

Christina Barbato: Okay.

Richard Dri: And it talks about how the wealthiest person could be the person right next door to you. He or she may be driving a ten-year-old car, living in a modest home, not very flashy, just general jeans, no designer jeans, no expensive watches. But that individual has their balance sheet under control. They have assets and have very few liabilities. They're not income statement driven. And that's one of the things that we are today facing. We see a lot of people flashing their income. And the book says, that's not the important thing. The important thing is your balance sheet. What are your assets, and what are your liabilities? Anyhow, it would be a nice match or a complement to David Chilton's book, *The Wealthy Barber*. Very good. Now, another topic-

Christina Barbato: I think I will read that.

Richard Dri: Yeah, it's a thicker book. I don't know if you have Audible, you could always put it on while you're working out or go for a walk. But I think it's worth it.

Christina Barbato: Okay. I'll read that.

Richard Dri: Yeah. You'll like it. He actually passed away unfortunately, not too long ago. But the book is still very, very timely and there is an updated version by his daughter. And you can read the updated version. Or you can read his version. They're both extremely valuable. Now, I want to talk a little bit more about financial independence, which is something that always comes up in this particular discussion. And we talk about, what is financial independence. But one of the most important themes that comes up is actually the definition of financial independence.

So my definition of financial independence could be completely different than yours. And often it is. So I wanted to ask you, now that you've been a lawyer for a few years, and now you've been an entrepreneur for at least the last four or five years, how do you define financial independence for you at this time?

Christina’s definition of financial independence (37:03)

Christina Barbato: Oh, gosh. I think that that term has a lot of different meanings. So financial independence on the one hand to me is about education. When I was growing up and my mom being one of them, I saw her go from somebody who relied on her spouse to manage the finances and didn't know much about how anything worked, to being someone who lost that spouse and then went on to teach herself all of those things. And right down to like, how do you write a check? What bills do we pay and how?

And so I think it's incredibly important that everybody is educated in how do you manage finances. And I hope that they change the education system a little bit so that we get more education on these very basic life skills, of how do you do all of these things? How do you manage it? How do you budget? And so you are always in control. You don't have to depend on anybody to figure these things out. So, that's one thing. I've always felt like being educated and understanding all that was what's very important.

And then in terms of financial independence, in terms of not having to worry about money, I feel like that was another part of my journey that I saw struggle when I was younger, and it made me motivated to get a job and have a type of work where I was making enough that I didn't have to worry about money. That's what I thought. And what little did I know, you always worry about money.

Richard Dri: Money and kids.

Christina Barbato: Right?

Richard Dri: Yeah.

Christina Barbato: It doesn't matter how much you have, you start worrying about other things. So, part of that is financial freedom. Do you have enough money that you don't worry about any of the basic things? And then do you have enough money that you are able to do all the things that you want without having to save for years and years for them. That you're able to have some more freedom, and being able to go on the vacations that you want, or get the gifts that you want, or things like that. So I feel like there's steps in that process of financial independence and what that means for different people.

Richard Dri: Yeah. I definitely agree with that. Just to follow up on, I guess, that theme that you said about having enough money so that you can have the basics, and you can have your trips, or whatever you think you need to make yourself happy at that particular point in your life. One of the things that I recommend and I do for myself as well is, I work it backwards. If I were to retire, say, tomorrow morning, how much money do I need in order to do the things that I think I'd like to do? And it could be traveling. It could be cycling. It could be just staying home and taking in the sites of Ontario, or of Canada.

Anyway, you come up with a number. And let's say that number just for convenience sake is $100,000. Then what you could do just, this is very, very rough. You can do it more scientifically or mathematically by using formulas and projections. But if you were to do a rough back of the envelope calculation, you take the 100,000 and you multiply it by 25. And that assumes that the portfolio will grow on average at 4%. which historically is very reasonable, but no one knows for sure what the return will be over the next 20, 30, 40, 50, or more years. So if you were shooting for $100,000 of income, obviously 25 times that number is 2.5 million.

So if you've achieved a portfolio of 2.5 million, then you might say to yourself, "Okay, now... " Or if you haven't, obviously you will work towards getting that number, but when you've achieved that number, then you could if you wanted to relax and say, "Okay, I have that number. I have the ability now to make work optional, because I have a two and a half million that will generate $100,000 of income for the foreseeable future. Assuming rates of returns are approximately 4%."

So that's another way to help you put a number to that particular goal and then calculate it. So just a rule of thumb, again, it's not mathematically accurate 100%. But no retirement projection is accurate because the moment you write it, or you perform that calculation, it's outdated. And so anything that projects into the future and the future being say, greater than five months or six months, I think, is prone to mistakes. So I'd rather have a rough number and continue to monitor that number on an ongoing basis, as I get closer and closer to that particular figure that we've calculated.

Christina Barbato: No, and I love the idea of having a goal in mind. Not that you have to stop there, but that you have it. I find it motivating. I have a question for you, though.
Do you, I've heard many times, and as somebody who's not sort of versed in the investment world, that you can sort of rely on your investments doubling every seven years, would you agree with that?

The rule of 72 (47:32)

Richard Dri: Yeah, that's the rule of 72. So if you take the number 72 and you divide it by a rate of return, it'll tell you how long it'll take for that money to double. So in your particular case, what you just said, if the money were to double every seven years, it means that you have to have a rate of return of 10% average.

In today's environment, if you bought all stocks, you might be able to get 10%, you would have over the last five years, but I don't know if you can in the future. As well in your particular asset allocation, you're buying bonds and your bonds are not generating 10% today. So your portfolio, if it's a mixture of stocks and bonds, and I don't know what the mix is, and we don't have to bring it up here. But that may not be set up to earn a rate of return of 10% because of the proportion that you've put into bonds. The moment you put five, or 10, or 20% of the bonds or greater, you then start to lower that potential rate of return that you could expect. Of course, you lower the volatility. But you also lower the expected return.

Now, is 10% realistic? On 100% equity portfolio, I think it's a little bit on the high side. I would not be assuming 10%. Only because I want to overshoot what I need to save. I would be projecting somewhere around the 6% mark. So now if you put six into 72, what's that, every 12 years? Yeah, every 12 years it'll double. So, 100,000 in 12 years it will double to 200, and then 400, and so forth.

Christina Barbato: Okay. That makes sense to me. Whenever I heard that, I thought, ‘Is that true?’.

Richard Dri: The math works, yeah. Now whether the 10% is achievable is debatable. And the last five, 10 years, since 2009, the financial crisis, you would have been able to achieve that number. I think because we were coming out of such a deep hole that that return was a bit of a catch-up return. But if you look at it before '09, the crash of '09 took away years of returns. I'm guessing five or more years of returns were wiped out, and didn't come back for another five years.

So yeah, 10% is a little bit on the high side, Christina, but only because I'd rather have more than less. If I do get 10%, I'd be happy. But if I get six or 7% in this environment with such low interest rates in such low inflation. The real rate of return today is actually quite high. If inflation is, say, 1% and you're earning seven before inflation, then the net return is closer to about 6%. Which if you look back, even when you were earning say, in the mid '90s, when interest rates were 20%, and inflation was 5 or 6%, the real rate of return was actually much lower then. So, although it looks like we're making less today, we're actually making more because inflation is low and interest rates are so low.

Well, Christina, thank you very much for that. That was interesting. Now, is there anything else that you would like to bring up that I haven't covered?

Christina Barbato: No. That was my burning question and you answered it.

Richard Dri: Well, feel free to send me an email or give me a call. I'm happy to answer that and have a discussion. Well, Christina, I want to thank you on that note. I wanted to thank you for this time and the information that you shared about your company, Metavo the product, and the future of products that are coming up. We're all very, very excited for you and interested. So thank you and the very best in your future.

Christina Barbato: Thank you so much for the opportunity to speak with you. It's been great.