FP Answers: What are the next steps for saving and investing after paying off student debt?

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By Julie Cazzin with Janet Gray

Q: I'm a 29-year-old graphic artist earning $6,000 a month after tax. This year, I paid off my $30,000 student loan debt. I have $20,000 in my tax-free savings account (TFSA), but I'm not sure what to do with it. I'm doing some long-term planning, and 10 years from now I would like to work only two days a week so I can pursue my hobbies. I recently started reading about

investing, but don't know where to start. Can you give me some good savings and investing advice? — *Merlita*

FP Answers: Merlita, having no or little debt and some savings certainly gives you more options. Let's start by clarifying the difference between saving and investing.

Saving is protecting your money and keeping it secure so it doesn't decrease in value. This is usually best for short-term use and/or emergency funds, and done with products such as high-interest savings accounts or guaranteed investment certificates (GICs). For longer-term goals and future use, you want to make your money work for you. You do this by investing it.

Start by clarifying your goals, which are the jobs you need your money to do. This is easier if you look at your goals by time chunks: short term (less than 12 months), medium term (one to five years) and long term (six years or more). Try to attach a cost estimate and date to each goal. It will make it easier to plan for.

Some examples of goals could be a holiday within the next year that will cost $1,200 (short term), a new car purchase in the next three years costing $35,000 (medium term) and a goal to retire at age 55 with an annual retirement income of $60,000 (long term).

With the future cost known, you can calculate how much to save while remembering to factor in the investment growth for longer-term goals. For instance, if you need $1,200 in 12 months, the math is simple: you need to save $100 each month. If you are saving for a retirement in 20 or 30 years, the calculations get trickier as there are many factors to consider, so speaking to a financial planner is helpful.

You might have many goals with potentially different start dates. Once you know the amount needed and the timeline, you are then able to narrow down the asset class (cash, bonds or stocks/equities) needed to match each goal. Choose an investment that is the right tool for the job.

A long-term goal suits longer-term investments, which usually indicates equity or stock investments. A short-term or more immediate goal suits cash. Medium-term goals are better suited to income assets, such as GICs.

Note, the overriding decider is your own risk tolerance. Some call this their "stomach" factor. What does your stomach tell you about the risk you are considering? How much risk can you tolerate? This is another way of asking how much loss you can afford before your goal's timeline is up.

With a short-term goal, you would not be able to quickly recover if your money decreased in value before you needed to use it, but if it was a longer-term goal, you would have time to recover and wait for the value to gradually increase again.

Any financial account you open — whether it be a registered retirement savings plan (RRSP) or TFSA — asks you to analyze your risk tolerance on the initial application, and usually annually after that to allow for changes in goals and timelines.

Merlita, you are looking at a longer-term, 10-year goal. Longer-term investments such as equities — mainly in the form of mutual funds and exchange-traded funds (ETFs) for most small investors — are more suited for those goals so that growth can compound over time and increase the amount you started with.

It's also wise to regularly review and revise your goals since factors such as interest rates, the economy, employment income and lifestyle can all influence them.

Try to consistently add to your base amount. Set up automatic contributions that match your pay schedule. These contributions encourage investors to deposit to their account whether the value of their investments is up or down. This is known as dollar-cost averaging. You will get a better average price for your investments because you are buying more frequently and at different price points due to different purchase dates rather than buying them all at one time at one singular price.

Look for the service level you require from your investment company. This is usually indicated by how involved you want to be. Some investors want to manage their investments themselves using a DIY brokerage account. The fees are low and you do all the transactions, research and monitoring yourself.

Other investors use a digital online adviser (also called a robo-adviser). They allow you to input your information and required data, and choose a product their algorithms suggest. The fees are a little higher, but you can speak to their call centre if needed.

Investors can also work with an investment adviser. There is a fee for this, either a percentage of your portfolio's value or a fee built into the investment product you purchase. Many of them offer services such as insurance, banking and mortgage products.

- I'm 73 and widowed so how should I organize my finances?
- How do I determine when to claim my rental condo repairs?
- Can we retire on $170,000 and maintain our lifestyle?

The takeaway here is to determine how much advice and involvement you want regarding your investments, then make sure you do your research to find the best fit.

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