Take the wheel of your financial car, new book advises

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After *The Wealthy Barber* was first published in 1989, it quickly became a bestseller with its non-intimidating and storytelling approach to the topic of personal finance. Nearly 30 years later, author David Chilton's key piece of advice remains one that many financial planners tell their clients to adopt: Pay yourself first.

Mr. Chilton, who has gone on to release updated versions of the book, suggests that people automatically put aside 10 to 15 per cent of their gross earnings into forced savings, even after their mortgage is paid off.

While the concept of systematically setting money aside is a useful one for people trying to build a nest egg, Toronto financial advisor Darren Coleman puts it a different way – one that he says is far more effective.

"Pay yourself first doesn't work," Mr. Coleman says. "But bill yourself first works.

"I know all sorts of people who couldn't save a penny, but all their bills are paid," says Mr. Coleman, senior vice-president and portfolio manager, private client group, of Coleman Wealth at Raymond James Ltd.

"They'll make sure all their bills are paid, even if they come last. They often feel guilty because they aren't saving, but the reason they aren't saving is because they're responsible. If I give you a bill for yourself, you will pay that with the same diligence as your Visa bill because you're disciplined. But to many people, saving feels like a luxury."

Bill yourself first is a premise that Mr. Coleman covers in his new book, *Recalculating: Find Financial Success and Never Feel Lost Again*. Throughout, he likens managing finances and investments to driving a car.

With fewer Canadian employees covered by defined benefit pension plans, he says people need to take the wheel of their own financial car.

"The only person who's going to grab the wheel is you," Mr. Coleman says. "Depending on government pensions for your retirement income, like OAS and CPP, is like taking public transit. Learning how to drive well, taking care of your financial car, and having a good road map to your destination is more important now than ever. You can't be a passenger in your own life. At the end of the day, you have to take control."

With defined benefit pension plans becoming as rare as a '57 Chevy, Mr. Coleman says that companies and governments are pushing the risk of retirement onto individuals "in ways we haven't seen since the Second World War." That's why Canadians need to take early, active responsibility for their investments to secure a comfortable retirement.

However, it seems many are not. Thirty-six per cent of Canadians don't have an investment account, according to recently released research from Tangerine Bank. It also found several barriers to investing: 70 per cent think they don't have enough money to invest; 25 per cent are worried about the risk of losing money; and 20 per cent say that investing is too complex and they don't have enough knowledge.

Edmonton-based certified money coach Barbara Knoblach, with Money Coaches Canada, says although accumulating sufficient retirement funds is certainly possible even without an employer pension, many people enter their retirement years financially unprepared simply because they don't start planning early enough.

"What I see in my practice is that the majority of clients are either completely unprepared or have neglected their retirement planning up to a certain age, when suddenly it hits them and they need to play a catch-up game," Ms. Knoblach says.

"Often times, by the time they come see me to discuss their retirement, they're in their mid-fifties – only about a decade away from normal retirement age. If, by then, a person has not started to set money aside and does not have a pension either, it will be extremely difficult for them to retire within a decade."

Ms. Knoblach agrees with putting aside at least 10 per cent of your income, noting that those who are starting to save later in life need to "power save" by aiming to set aside 20 per cent.

"I personally also like to separate my day-to-day banking and my investments to different financial institutions," she adds. "This way, the investments are removed from my immediate control and it is harder to dip into them. I can also ignore them more easily if there is a market downturn."

For people who are comfortable handling their investments themselves, Ms. Knoblach recommends choosing those that are low in fees and in maintenance, such as a low-fee, no-load fully diversified mutual fund, while robo-advisory services can be used for index investing. However, she cautions that the DIY route isn't for everyone.

"Most people are not doing well as do-it-yourself investors," she says. "They either don't have the knowledge or the right temperament to manage their investments well. They buy at the top of the market and sell in a panic when there is a market pullback, even if they know they should be doing the opposite. Or they start gambling on less-than-solid investments. Those people should not try to self-manage their investments.

"Yes, it is correct that you will have to pay fees, such as those to a mutual-fund company, but this is a small price compared to the possibility of losing all of your investments because of your own bad investment decisions."

If all of the related information seems overwhelming, experts suggest consulting a financial advisor. Kelly Ho, a certified financial planner and partner at Vancouver's DLD Financial Group, says many of her clients have realized that they've been left to fend for themselves.

"Even those who have company-sponsored retirement plans, such as group RRSPs and defined contribution plans, aren't confident their goals will be achieved, because the projections they receive assume they will be with the company their entire career," Ms. Ho says. "Most people move employers after a few years. Many clients are scared they will not be able to achieve their goals if they aren't pro-active."

Ms. Ho says clients value expertise that provides them with a benchmark, so they can visualize where they stand financially with respect to their goals. They want – and benefit from – a written financial plan to keep track of their progress.