

The Frugal Investor



Prudent investing; taking stock and making a decision to plan your future; exercising discipline over time; dealing with the constraints of time

The principles that Jack and Kate are learning now will stand them in good stead later when they prepare their financial plans. On the immediate horizon, Kate will ponder the importance of prudence in investing, and Jack will further explore how the constraints of time force him to set priorities as he develops an investment plan.

Clive meanwhile must assess what it means to be approaching retirement, and in particular the implications of no longer earning income as an active business owner/operator...



<10> The Ten Principles of Being Rich...

It is early November and Kate strides triumphantly out of the head office of her largest client with a 15-month contract signed and sealed. Not only has she got a great head start toward the new year, but she has already done the mental math and calculated she has just reached her annual sales target for the current year and earned herself a fat \$10,000 bonus. Her mind is racing as she dreams of how she could spend it. She could get rid of her boring old sedan and put the bonus down on a new sports car; or, she could treat herself to new rock-climbing gear and head out to the Rockies with her new boyfriend Murray for an adventure vacation; or, she could play the market and watch it grow.

She pulls out the calculator again and punches in a few investment-growth scenarios based on different interest rates. Even with a safe, conservative investment vehicle, that \$10,000 invested now, will be worth close to a hundred thousand dollars if left untouched until age 65.

The next weekend, Kate demonstrates that she is learning the value of prudence and self-discipline another way. You see, she has a regular routine of getting together at the local coffee shop with a couple of old high school friends, and today they joke about their wardrobes. One girlfriend ribs

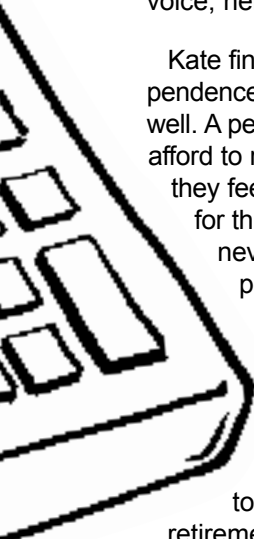


Kate about her no-name, running shoes. Kate answers by pointing out that by saving a few dollars now and passing up trendy items such as - \$150 running shoes, she will be able to put more into to a monthly savings and investment program and will end up thousands of dollars ahead in the future.

Well, Kate immediately gets razzed for being so serious, but she doesn't back away from the point - that practicing self-discipline, exercising prudence and making the tough choices at a young age will one day pay dividends.

For Kate, working to build an investment plan is a matter of personal development. As she reaches her mid-twenties, she finds that taking charge of her

own financial affairs gives her a sense of independence, of newfound maturity. It affects the way she walks, the tone of her voice, her self-confidence.



Kate finds it is a source of independence at her workplace as well. A person with savings can afford to resign from their job if they feel the need to do so. And for this reason they may never need to do so. A person who can afford to quit is much more useful to their company, and therefore more promotable.

So for Kate, the move to start saving for her retirement is an important way to assert her newly developing sense of self-esteem.

But for Jack, the process necessitates a painful, but necessary, exercise in self-analysis. He has been earning a decent dollar for quite a few years now but he found himself shelling out for alimony, child support, summer camp and more for all those years, and now that he has hit 50 he has come to the abrupt realization that he has only 12 or 15 years left in his working life but has managed to save very little for his retirement, aside from the company pension plan. Jack has dreams of golfing and travelling in his retirement - but how is he going to build up a retirement fund in his fifties if he

has to pay for college tuition fees and living expenses for his son and daughter for a number of those years?

Complicating Jack's deliberations as he prepares to make some immediate retirement-planning decisions is the reality that he has less time than Kate to recover from any investment losses. So while he may be eager to start earning some major returns, he has to recognize that he needs to avoid investments that are overly volatile. And then there is his natural sense of caution to deal with. Think about it - if the age of 50 seems to be rather late to be starting to take retirement planning seriously, imagine how tough it would be for him to be wiped out at 52 or 54 because he went for highly speculative stocks at the wrong time and had to start from scratch again. His goal will have to be relatively rapid growth combined with low risk - certainly a tall order.

Another time constraint for Jack relates to the age of his children. He has been reading about Registered Education Savings Plans as a way of supporting their post-secondary

$\$10,000 \times$
 20 YEARS
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<12> The Ten Principles of Being Rich...

education and protecting investment income from taxes, and realizes he has already missed the boat for his son, who is 17. But the option is still available to set up an RESP for his 13-year-old daughter.

How about Clive? Though he is past the accumulation stage, he finds himself better off overall than Jack thanks to his prudent investing over several decades. He has been working with a financial planner for 20 years, putting aside annual profits from his small business toward a retirement nest egg, and now he can anticipate the proceeds from the sale of his business.

But Clive can't afford to make many mistakes with his investment portfolio. He and his wife are well positioned to live off their savings, which are substantial, but he has other growth considerations. While there is no need for Clive to take unnecessary risks with his investments, he feels he must continue to include a growth component in his portfolio for estate purposes. He and Ida are committed to leaving a sizable amount for each of their grown children and grandchildren, so they don't want to dissipate their hard-earned and well-managed wealth. If they can manage to live off the earnings from their capital, they will be able to leave a lasting legacy of their hard work for future generations.

For each of Kate, Jack and Clive, then, their unique position on the time-life path, representing a bundle of personal characteristics and investment history, attitudes and needs for the future, gives them their own unique perceptions of time. They can't change the past, but the decisions they make in the present - the goals they work toward - will have a major influence on future outcomes, both financial and personal.