The Snowman's Guide to

Personal FINANCE

A simple approach to managing your money

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ISBN 978-1-7770173-0-9

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Introduction

There's only one thing that causes Canadians more stress than our winters. After all, they're frigid, dark and unrelenting. Everyone has a traumatic winter experience to best any story a friend may share. But at the same time, our winters allow for a slew of enjoyable activities. You can skate, sled, drink hot chocolate by the fire or most importantly—as I've now learned—build a snowman.

The answer to the question likely on your mind is personal finance. It's the only thing Canadians consistently find more stressful than winter months—and for many of the same reasons. Student loans, housing affordability and financial illiteracy bring feelings of being restricted, left out in the cold and helpless.

The Challenge

Financial products, like insurance, a mortgage or an investment account, are confusing. There are countless options to choose from and lines of fine print to read. In addition, Canadians continue to borrow more money than ever before and pay higher fees relative to other countries. Selecting the wrong product for your needs can add thousands in additional costs each year. Not taking advantage of certain products altogether can be even worse. You could miss out on hundreds of thousands in growth on your savings or place your family in financial hardship if something terrible were to happen.

While we face unique challenges in Canada, the fact remains that managing money is hard for everyone. As a species, we've only needed to budget our money for the future for a small portion of our existence. Many of the behaviours that served us well in the past make it difficult to take the steps required to be financially successful.

The Solution

While the cards seem to be stacked against us, similarly to our winters, this doesn't have to be the case. Improving your financial literacy will allow you to take advantage of the right products and mindsets to better manage your money. This book provides simple and actionable steps to help you do just that. The best part is that these steps

are as rewarding and simple to understand as building a snowman after a fresh snowfall.

Origins of *The Snowman's Guide*

The first idea for this book originated in 2012 after a dinner with my younger brother and a close friend. I was impressed to learn my brother had set aside a handy amount of money from years of saving. However, as an older brother—and then finance student—concern arose as I learned his money was in a chequing account.

Immediately, I mentioned the need to invest for the future to protect his savings from inflation. I tried to explain that each day his money was worth less because things generally become more expensive over time.

In the end, I found success through a simple analogy. I explained that his money in a chequing account was like water in a bucket sitting in the sun. Even though you can't see anything happening, the sun slowly evaporates the water until there's nothing left. Money sitting in a chequing account without earning interest slowly becomes less useful to you. Gradually, the value diminishes until it's effectively gone.

I realized two things at that moment. Fundamentals of personal finance are less widely known than I'd thought, and analogies can bridge the gap between what people know and what they want to learn.

Since that first idea in 2012, I've focused a great deal of my time to help Canadians save and invest their money. I've learned the theories and best practices through thousands of hours of study for school and industry exams. I've also learned practical approaches that Canadians follow through over 10,000 conversations with investors. Through combining theory and practice, this book provides steps that work and explains why.

How to Use This Book

This book is broken into three sections to provide you with the foundation you need to be financially successful. In addition, it's intended to serve as a reference point for the future. Not all topics may be relevant to your current situation, but by learning about them now, you'll be able to use them later.

- Part I outlines saving and investing.

- Part II provides additional tools, like budgeting and account options.
- Part III explains where to go next and what to consider along the way.

The analogy of building a snowman is used throughout the book to provide a consistent framework, tying everything together. This will help you understand and recall these important ideas as they become relevant for your life. If you have questions or feedback as you progress through the book, please let me know at steven@snowmansguide.com.

Part I
Building a Snowman

Your income is where we'll begin to demonstrate how personal finance is as simple as building a snowman. We'll compare money earned to a fresh snowfall and discuss the similarities in next steps. The section ends with the first analogy I used to help my brother years ago. We'll compare inflation and its impact on your money to a snowman stuck in the blistering sun.

Along the way, we'll cover:

1. Setting aside money as it's earned to pay off debt or to save
2. Investing your savings to help them grow
3. Choosing the right investments for your needs
4. Taking on the right amount of risk to reach your goals
5. Protecting your savings from unexpected expenses

Chapter 1:
A Fresh Snowfall

Your Income

The bell rings to signal the start of recess at a primary school. The students race out of class, excited for the fresh snowfall that's been distracting them all morning. Their focus is simple: to build the best and biggest snowman possible. The fresh, damp snow allows snowballs to be created effortlessly. The unpacked, abundant field ensures the snowman will be large, round and done by the end of recess.

The children are unaware that the steps they're about to take building a snowman are the same they'll eventually take to prepare their financial futures. The reasoning is quite simple. The growth, maintenance and enjoyment of creating a snowman mimics the growth, maintenance and enjoyment of a successful financial plan. This is where we'll draw our first analogy and begin to learn the most important steps within personal finance through building a snowman.

Getting to Your Income First

Think of this fresh snowfall as your paycheque or source of income. Each new paycheque presents a vast field of snow—or money—that you now control. Imagine if the school children hadn't rushed to the fields to build a snowman that recess. Imagine if they had waited days or even weeks before beginning. What the children likely would have found by then isn't a field of opportunity, but instead a field of trampled down snow.

If you wait to set money aside until after it's burned a hole in your pocket, you won't be nearly as successful. Instead, it's best to set it aside the moment you receive it. Be the first to your paycheque to ensure it doesn't get trampled down by other spending.

This demonstrates the importance of setting aside a bit of your income as it's earned. Doing so ensures you're able to take advantage of that field of snow before it gets rundown. After all, just as the seasons change and the snow inevitably disappears, you'll eventually reach a

point in your life where you no longer wish or are able to work and must rely on your savings to support you from there.

Income Over Your Lifetime

In addition to using analogies throughout this book, I'll rely heavily on individual examples to make things real and actionable. For our first example, let's consider Kelly, who's starting to save for retirement. Kelly is twenty-five, earning $40,000 a year and wants to retire at age sixty. Setting aside 10% of her income—the equivalent of $333 a month—until retirement would collect $140,000. It's surprising how much money the average person earns and spends in a lifetime without realizing it. At $40,000 a year, Kelly would earn $1.4 million over thirty-five years. If she's not careful, she could have very little left over to show for it.

Small purchases add up over time and can erode a paycheque. Therefore, it's critical to get to your income first and set a portion aside before it's trampled down to nothing.

While not all savings goals are as long-term as retirement, the steps remain the same. Take, for instance, a couple saving for a down payment on a new home. Between them, they earn $95,000 a year and hope to have enough for a down payment in three years. By setting aside 10% of their income—or $13 each per day—for the next three years, the couple would accumulate a total of $28,500. The first step to achieve any financial goal, big or small, is to get to your money before it's been spent and set it aside for the future.

Obstacle: The Temptation to Spend

The issue most people run into when trying to save is the persistent temptation to spend their money. This is due to human nature and our difficulty considering long-term benefits in the face of short-term rewards. It's also what keeps most of us from going to bed on time or tackling that to-do list. We prefer the immediate rewards of doing something else over the long-term gains of getting it done. Therefore, we push the challenge off for another day. It's so hard to save, even though we know we need to, because there's an immediate reward to spending.

The best way to fix this is by automatically transferring your money to another account immediately as it's earned. Keeping your savings out

of sight and out of mind is a useful strategy to avoid temptation. The first step is to open a new account with your preferred financial institution—for instance a bank, credit union or digital offering. Once the account has been set up, there are several ways you can transfer over your savings.

Most financial institutions have a service known as a recurring transfer. It's an automatic, scheduled transfer of money from one account to another. This can be used to transfer a portion of your income the day after it's received. For example, if you're paid $1,300 every other Friday, you could schedule a transfer of $150 for every other Saturday. Transferring money before it's spent ensures that saving for the future isn't left to the last minute and potentially forgotten.

If transferring a set amount of money on a regular basis doesn't work for you, there's another option available. Some financial institutions allow you to transfer money from one account to another every time you make a purchase. For instance, as you pay for your $12 dinner, $1 would also be withdrawn and transferred to your savings account. By transferring money whenever you make a purchase, the act of saving becomes less noticeable. You also ensure that money is being saved because to make any purchases, you must also put aside some money for the future.

Obstacle: Thinking You Need the Money Now

Some people postpone setting aside money because they feel it's needed today. You likely have expenses and obligations that your money is earmarked for.

However, what's commonly noticed, and surprisingly so, is that the money you set aside in savings is rarely missed. Quite quickly, most people find their expenses decrease to match the amount of money remaining after savings have been put aside. We tend to spend the money we have available simply because it's there, not because we need to. As a result, setting money aside allows you to save for the future without much of an impact on your current standard of living. To experience it yourself, try setting aside an extra $5 a day and see if you notice. Even that small change would add up to $9,125 over five years. You can start as small as you're comfortable with and gradually increase the amount as your spending habits adjust.

Obstacle: Thinking It's Too Late

Many people worry it's too late to start saving and feel they're too far behind to make a difference. While starting early helps, it's not the only way to reach your goals. You'll be amazed how quickly small changes to savings habits can add up. It's never too late to start putting away money for a car, a down payment on a house or your retirement. Every dollar you put away brings you closer to achieving your financial goals.

Take Darryl for instance, who's forty-five and hasn't started saving for retirement. He's currently making $50,000 a year and is looking to retire at sixty-five. He's decided to set aside 15% of his income for a value of $625 a month. Even with starting at forty-five, Darryl can set aside $150,000 before reaching retirement. Again, this illustrates how regular deposits to a savings account will gradually build to a very useful sum of money.

Budgeting

You can find areas to reduce spending by creating a budget and comparing it to your current expenses. We'll discuss budgeting in further detail in Chapter 6. The main finding is that you can save for the future while maintaining your current standard of living. Through listing and ranking activities that bring you the most satisfaction, you can ensure there's enough money for your top priorities even while setting savings aside.

Paying Off Debt

So far, we've assumed the income you're setting aside is going into a savings account. However, more commonly these days you may benefit from first paying off some loans. We'll cover managing debt in greater detail in Chapter 7. The most important lesson is to pay off high-interest debt before you start setting aside money in a savings account.

High-interest debt generally charges more than 10% interest. It can include credit cards, payday loans and some personal loans. These loans are dangerous because the interest charged means you're constantly fighting an uphill battle. The interest is like gravity dragging you backwards as you try to roll a snowball up a steep incline.

The steps to pay back a loan are the same as setting up your savings. Get to your income first and set aside as much as you comfortably can. Gradually look for ways to lower your spending to make larger payments toward your loan. The key is to pay enough to cover any interest charges and then as much as you can to repay the original loan amount.

Final Thoughts

Whether through conscious or automatic transfers, saving for the future is a necessity. By getting to your money first and setting some aside, you'll be better financially prepared. Just as the children ran for the fresh snowfall, ensure you're getting to your money before it's been trampled.

Key Takeaways

- Get to your money first and set aside savings, so you maintain your standard of living in the future.
- Start today and build your savings habits gradually to avoid taking on too much change at once.
- Automate your savings to remove the temptation to spend.

Chapter 2:
The Snowball Effect

Growing Your Savings

Now that you've seen just how quickly regular savings can add up, it's time to discuss the benefits of putting those savings to work. You can invest your savings to earn more money over time. For example, you can deposit your money in a high-interest savings account. Financial institutions pay you cash—called interest—for keeping your money with them. This interest helps grow your savings, allowing you to reach your goals sooner.

Compound Growth

If you leave your money in the account, you'll continue to be paid more interest. You're paid interest both for the money you originally saved and the interest you keep in the account. This process of earning interest on your interest is an example of compound growth. Compound growth—in this case, compound interest—is the most powerful tool available to help you reach your financial goals.

Every month you leave your money in the high-interest savings account, you earn more and more interest. Eventually, the money you set aside combined with the interest leads to a much larger account balance than you'd expect.

Think of a snowball. What starts as a small ball begins to collect additional snow as it's rolled through the field. The snowball grows, and as you continue pushing, it collects snow at a faster and faster rate. The longer you continue, the faster it picks up snow and the larger it becomes. This is the same process your money goes through with compound interest. Your initial savings collect larger and larger amounts of interest, allowing your money to work for you.

Exhibit 1 – A snowball rolling over snow grows at a faster and faster rate.

The growth rate you earn and the length of time you leave your savings invested are critical. The higher the growth rate, the faster compounding works to your advantage. In addition, the longer you invest, the more times your earnings will compound.

Growth Rate

To see the impact of compound growth on your savings, we'll consider three individual cases with different growth rates.

In the first case, we'll consider a $5,000 savings account with 0.5% yearly interest. With such a low interest rate, it will take a while to see substantial growth. In fact, it would take 139 years for the original $5,000 to grow to $10,000. This illustrates why having money sitting around earning low interest rates isn't helping you to build up your savings.

The second case is a savings account with 1.5% yearly interest. At this rate, it's possible to grow the $5,000 into $10,000 in roughly forty-seven years. This means the initial $5,000 in savings has effectively gone to work for forty-seven years and earned an additional $5,000. To think of it another way, you're being paid to do something that is already benefiting you—saving for your future.

Finally, if we consider an annual growth rate of 7%, that initial $5,000 would reach $10,000 in just over ten years.

Exhibit 2 – It could either take 139 years or ten years to double your money, depending on if you're earning 0.5% or 7% a year.

Annual Growth Rate	0.5%	1.5%	3%	5%	7%
Years to Double Your Money	139	47	24	14	10

A 7% growth rate will continue to allow the $10,000 to grow into $20,000 ten years later and $40,000 in an additional ten years.

Exhibit 3 – Similarly to the rolling snowball in Exhibit 1, compound growth has a powerful impact on the size of your savings over time.

Finally, we'll compare how two growth rates that appear similar at first glance—7% and 8%—will grow over thirty-five years. With an initial $10,000 growing at 7% a year, you'd have $106,800 after thirty-five years. While this is exceptional growth that would help you reach your goal, let's consider the second rate. If you achieved 8% yearly growth, your $10,000 would grow to $147,900 over the same thirty-five-year timeframe. Even though the difference in rates is only 1%, you stand to earn over 40% more.

Length of Time

The sooner you start saving for the future, the longer your money can grow. The benefit of increased time can be seen with an example. Let's watch two new grads, Daniel and Craig, as they begin their professional lives. Daniel realizes the importance of setting aside savings, and for the first ten years after college, he saves $5,000 a year. From age twenty-three through thirty-two, Daniel sets aside a total of $50,000. If he allows that money to grow at 7% a year, at age sixty,

Daniel would have a total of $459,300. Because Daniel started so early, the deposits he made grew to nearly ten times what he put aside.

Craig has heard stories of building personal wealth but has other priorities after graduation. It's because of this that he postpones saving until the age of forty. To reach $459,300 in savings by the time Craig is sixty, he'd need to deposit $11,200 a year for twenty years. This would result in Craig setting aside $224,000 compared to Daniel's $50,000. By delaying his savings by eighteen years, Craig didn't allow his money the same opportunity to grow that Daniel's had. By starting to save—even small amounts—as soon as you can, you'll allow your savings the most time possible to benefit from compound growth.

Exhibit 4 – After setting $5,000 aside for the first ten years after graduation, Daniel was able to sit back and watch his savings grow. Meanwhile, due to the shortened timeline Craig gave his money, he had to set aside $11,200 a year for twenty years to catch up.

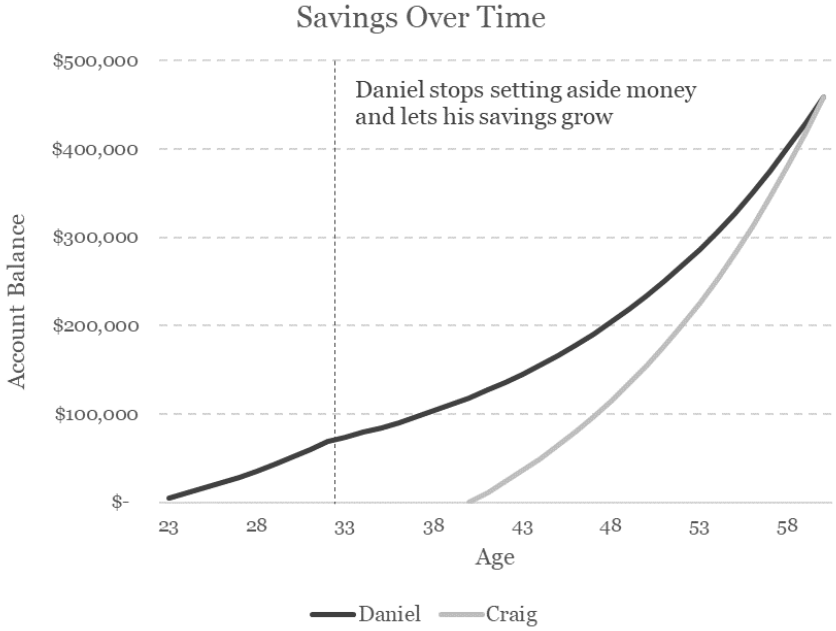
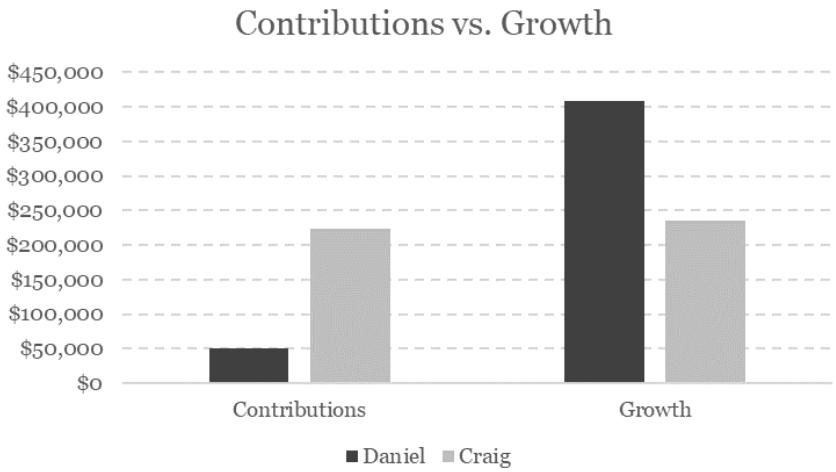


Exhibit 5 – Presented in a different way, Craig had to contribute over four times what Daniel did to arrive at the same account balance at the age of sixty.



Examples from Chapter 1

In the previous chapter, we considered three examples of saving for the future. Kelly was starting early to save for retirement, a couple planned to buy a house in three years and Darryl was eager to catch up on his retirement goal. These examples showed that with regular deposits to a savings account, you can amass a great deal of money. Let's revisit those examples and consider compounded returns on the savings.

In our first example, Kelly set aside $4,000 a year for thirty-five years. As a result, we determined she'd save $140,000. If she were able to earn a 7% yearly growth rate, the balance would reach a value of $553,000—nearly four times the savings without growth.

In our second example, the couple set aside $9,500 a year for three years for a down payment, resulting in $28,500. Even with only a short period for the money to grow, the couple would have $30,500 if they earned a 7% annual return.

Finally, Darryl set aside $7,500 a year for a period of twenty years and saved $150,000 toward retirement. If he earned 7% annually, he would have $307,500—more than double the amount that was set aside.

Exhibit 6 – Kelly and Darryl earned more from growth than either set aside themselves. In fact, Kelly only set aside 25% of what she ended up with.

Saver	Per year	Years	Saved	Growth	Total
Kelly	$ 4,000	35	$ 140,000	**$ 413,000**	$ 553,000
Couple	$ 9,500	3	$ 28,500	**$ 2,000**	$ 30,500
Darryl	$ 7,500	20	$ 150,000	**$ 157,500**	$ 307,500

What you're witnessing is money hard at work making the most of compound growth. By placing savings in an account with interest—or any return—the money you've saved earns you additional income as the years go by. The growth accumulates and shortens the time needed to reach your financial goals.

Final Thoughts

Compound growth is a tremendous tool available to those who choose to use it. It's been used before by children in the field building a snowman, and now it's time you put it to use to build your savings. By starting early and earning returns, you can put your money to work saving for your goals.

Key Takeaways

- Invest your savings to earn interest or other returns and put your money to work.
- Compound growth is critical to reaching your long-term financial goals.
- Earning a higher growth rate and starting early are key to growing your savings.